STATE OF UTAH

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

State Of Utah
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended June 30, 2004

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ACKNOWLEDGMENTS

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State of Utah
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For the Fiscal Year Ended June 30, 2004

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the State of Utah conform in all material respects with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board. Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

A. Reporting Entity

For financial reporting purposes, the State of Utah reporting entity includes the "primary government" and its "component units." The primary government includes all funds, agencies, boards, commissions, and authorities that are considered an integral part of the State's activities. The State's component units are legally separate organizations for which the State's elected officials are financially accountable.

The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and either: 1) the ability of the State to impose its will on that organization or; 2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State. Where the State does not appoint a voting majority of an organization's governing body, GASB standards require inclusion in the reporting entity if an organization is fiscally dependent on the State, its resources are held for the direct benefit of the State or can be accessed by the State, or the relationship is such that it would be misleading to exclude it.

Except where noted below, the State's component units issue their own separate audited financial statements as special-purpose governments engaged only in business-type activities. These financial statements can be obtained from their respective administrative offices or from the Utah State Auditor's Office, PO Box 142310, Salt Lake City, UT 84114.

Entities such as the local school districts and local authorities of various kinds that may only partially meet the criteria for inclusion in this report have not been included. (The State's support of the public education system is reported in the Uniform School Fund, a special revenue fund.)

Blended Component Units

Blended component units provide services entirely or almost entirely to the primary government. GASB standards require this type of component unit to be reported as part of the primary government and blended into the appropriate funds.

Utah State Building Ownership Authority (blended with the primary government's debt service and capital projects funds) — The Authority was created by the Legislature as a body politic and corporate for the purpose of financing, owning, leasing and operating facilities to meet the needs of state government. It is comprised of three members: the Governor or designee, the State Treasurer and the Chair of the State Building Board. Separate financial statements are not required or issued for the Authority.

Discrete Component Units

Discretely presented component units are reported in a separate column and/or rows in each of the government-wide statements to emphasize that they are legally separate from the State. The Governor appoints at least a majority of the governing board members of each of the State's component units, subject in most cases to approval by the Senate. The Utah Housing Corporation is included in the reporting entity because of its ability to issue moral obligation debt of the State and low-income housing tax credits. The other component units are included in the reporting entity because under the criteria established by GASB, the State has the ability to impose its will on these organizations. The colleges and universities, the Public Employees Health Program and the Comprehensive Health Insurance Pool are included as component units due to the level of oversight provided by the State. The Governor-appointed board members of the remaining component units can be replaced at will.

The State's major discrete component units are:

Utah Housing Corporation — The Corporation issues bonds to provide capital for housing and home mortgages, especially for low and moderate-income families. Operations are financed from bond proceeds and from mortgage and investment interest and fees.

Public Employees Health Program — This Program provides employee medical and other insurance services predominantly for agencies of the State. It also provides claims processing and insurance services for other public entities within Utah. The Program is administered by the Utah State Retirement Board.

University of Utah and Utah State University — These universities are funded primarily through state appropriations, tuition, federal grants, and private donations and grants. In addition to instruction, these universities provide research and other services. The operations of the University of Utah also include its hospital and clinics.

The State's nonmajor discrete component units are:

Comprehensive Health Insurance Pool — The Pool is a nonprofit quasi-governmental entity established within the State Insurance Department. It provides access to health insurance coverage for residents of the State who are considered uninsurable.

Heber Valley Historic Railroad Authority — The Authority is an independent state agency that maintains and operates a scenic and historic railroad in and around the Heber Valley. The Authority has a separate compilation report, but separate audited financial statements are not required or issued for it.

Utah State Fair Corporation — This is a nonprofit public corporation that operates the State Fair Park and conducts the Utah State Fair and other various expositions and entertainment events. It receives state appropriations for operations and working capital.

Colleges and Universities — Weber State University, Southern Utah University, Salt Lake Community College, Utah Valley State College, Dixie State College of Utah, College of Eastern Utah, Snow College, and the Utah College of Applied Technology. Separate audited financial statements are not required or issued for the Utah College of Applied Technology; however, its significant branch campuses each issue separate audit financial statements.

Fiduciary Component Units

Utah Retirement Systems (pension trust funds) — Utah Retirement Systems administers pension funds for various public employee retirement systems and plans of the State and its political subdivisions. Utah Retirement Systems is an independent state agency subject to legislative and executive department budgetary examination and comment. The Utah State Retirement Board, a seven-member board is established by statute to administer the systems and plans, and to serve as investment trustees of the funds. Six members are appointed by the Governor with the advice and consent of the Senate, while the State Treasurer serves as the seventh member. Because of the State's trustee responsibilities for these systems and plans, GAAP requires them to be reported as pension trust funds of the primary government rather than discrete component units. In accordance with GAAP, fiduciary funds and component units that are fiduciary in nature are excluded from the government-wide financial statements.

Related Organization (Excluded from Financial Statements)

Workers' Compensation Fund — This fund is a nonprofit quasi-public corporation created by the Legislature for a public purpose that provides workers' compensation insurance to private and public employers. The Governor appoints six of the Fund's seven board of directors, but the State's financial accountability for the Fund does not extend beyond making the appointments.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities report information on all nonfiduciary activities of the primary government and its component units. Primary government activities are distinguished between *governmental* and *business-type* activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets presents the reporting entities' non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints placed upon them are either externally imposed or are imposed by constitutional provisions or enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. The State does not allocate general government (indirect) expenses to other functions. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. For governmental and proprietary funds financial statements, the emphasis is on major individual governmental and enterprise funds, with each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Internal service funds are also aggregated and reported in a separate column on the proprietary funds financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Nonexchange transactions, in which the State receives value without directly giving equal value in exchange, include taxes, grants, and donations. Tax revenue is recognized in the fiscal year in which the related sales, wages, or activity being taxed occurred. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been met.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers taxes and other revenues to be available if the revenues are collected within 45 days after yearend. An exception to this policy is federal grant revenues, which generally are considered to be available if collection is expected within 12 months after yearend.

Expenditures are generally recorded when the related liability is incurred, as under the accrual basis of accounting. However, expenditures for principal and interest on long-term debt are recorded when due or when amounts have been accumulated in the debt service fund for payments of interest to be made early in the following year. Also, expenditures and related liabilities for compensated absences, postemployment benefits, and claims and judgments are recorded only to the extent they have matured (come due for payment).

Major Governmental Funds — The State reports the following major governmental funds:

- **General Fund**. This fund is the principal operating fund of the State. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- **Uniform School Fund**. This special revenue fund accounts primarily for revenues and expenditures that support public elementary and secondary schools in the State.

- **Transportation Fund**. This special revenue fund accounts for revenues and expenditures associated with highway construction and maintenance.

- **Centennial Highway Fund**. This special revenue fund was created by the Legislature to account for specific highway projects.

- **Trust Lands Fund**. This is a permanent fund that accounts for land grants and the sale of such lands received from the federal *Enabling Act*. The principal in the fund is perpetual, with the earnings used primarily to support public education.

Nonmajor Governmental Funds — The State's nonmajor governmental funds include other special revenue funds, capital projects funds, and debt service funds. The nonmajor special revenue funds account for specific revenue sources that are legally restricted to expenditures for specific purposes. Examples include tobacco settlement monies, environmental activities, crime victim reparations and rural development programs. The capital projects funds account for the resources used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds. The debt service funds account for resources used for the payment of interest and principal on general long-term debt obligations.

Proprietary Fund Financial Statements

The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above. Proprietary funds include both enterprise and internal service fund types. Enterprise funds report the activities for which fees are charged to external users for goods or services. Internal service funds account for goods and services provided primarily to other agencies or funds of the State, rather than to the general public.

The proprietary funds follow all GASB pronouncements, and all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as subsidies and investment earnings, are reported as nonoperating.

Major Enterprise Funds — The State reports the following major enterprise funds in its proprietary fund statements:

- **Student Assistance Programs**. These programs make loans to, and purchase loans of, qualified students attending eligible higher education institutions. The programs also guarantee the repayment of student loans made by participating lenders to eligible students.

- **Unemployment Compensation Fund**. This fund pays claims for unemployment to eligible recipients.

- **Water Loan Programs**. This fund provides loans to local governments, water districts, and other entities for the purpose of upgrading water storage facilities and other related structures.

Nonmajor Enterprise Funds — The State's nonmajor enterprise funds include loan programs for communities, low-income housing, agricultural and other purposes; Alcoholic Beverage Control (state liquor stores); Utah Correctional Industries; State Trust Lands Administration; and the Utah Dairy Commission.

Internal Service Funds — The State also reports the internal service fund type in the proprietary funds statements. The activities accounted for in internal service funds include information technology, fleet operations, risk management, copy and mail services, debt collection, and property management. In the government-wide financial statements, internal service funds are included with governmental activities.

Fiduciary Fund Financial Statements

The fiduciary funds account for assets held by the State in a trustee capacity or as an agent for other individuals or organizations. The fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The following fiduciary fund types are reported:

Pension Trust Funds — These funds account for the transactions, assets, liabilities, and fund equity of the retirement systems and plans administered by Utah Retirement Systems.

Investment Trust Fund — This fund is used to account for the investments related to external participants in the Utah State Public Treasurer's Investment Fund.

Private Purpose Trust Funds — These funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations or other governments. Examples include the Utah Navajo Nation Trust, Unclaimed Property Trust, Employers' Reinsurance Trust, Petroleum Storage Tank Trust, and the Utah Education Savings Plan Trust.

Agency Funds — These funds account for assets held by the State as an agent for other governmental units, other organizations, or individuals. These funds include fines, forfeitures, tax collections, and withholding taxes for employees.

Component Unit Financial Statements

The combining component unit financial statements are presented in order to provide information on each of the major component units included in the component unit's column of the government-wide statements. The component unit financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The information is presented in order to be consistent with the government-wide statements, and is less detailed than the presentation in each component unit's separately issued financial statements. The component units follow all GASB pronouncements, and all FASB pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. In addition, as allowed by GASB standards, the Public Employees Health Program has elected to apply all applicable FASB pronouncements issued after November 30, 1989, that do not conflict with GASB standards.

D. **Fiscal Year Ends**

All funds and discretely presented component units are reported using fiscal years which end on June 30, except the pension trust funds (fiduciary funds) and the Utah Dairy Commission (a nonmajor enterprise fund), which have fiscal years ending December 31.

E. **Assets, Liabilities, and Net Assets/Fund Balances**

Cash and Cash Equivalents and Investments

Cash equivalents are generally considered short-term, highly liquid investments with a maturity of three months or less from the purchase date. The Student Assistance Programs (enterprise fund) use a trustee for their long-term investing needs, and they consider any cash and cash equivalents held by their trustee as investments.

All cash deposited with the State Treasurer by state entities is maintained by the Treasurer in various pooled investment funds. The State Treasurer invests the deposited cash, including the cash float, in short-term securities and other investments. All interest revenue is allocated to the General Fund unless state law or trust agreements require allocations of interest to other funds. Funds authorized to receive interest earnings are segregated into separate investment pools, and interest is allocated based on cash balances in the pool.

Investments (including cash equivalents) are under the control of the State Treasurer or other administrative bodies as determined by law. In certain instances, investments may be restricted by law or other legal instruments. Investments are presented at fair value. The fair value of investments is based on published prices and quotations from major investment brokers at current exchange rates, as available. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors, have determined the fair values for the individual investments. Investments held as security deposits which are not held for investment purposes are carried at cost. The Utah Retirement Systems (pension trust funds) mortgages are valued on an amortized cost basis which approximates fair value, and the fair value of real estate investments has been estimated based on independent appraisals.

The State's Unemployment Compensation Fund (enterprise fund) monies are required by the Social Security Act to be invested in the U.S. Department of Treasury, Bureau of Public Debt Unemployment Trust Fund (BPDUTF), which is not registered with the SEC. The fair value of the position in the BPDUTF is the same as the value of the BPDUTF shares.

Utah Retirement Systems (pension trust funds) held three types of derivative financial instruments at yearend: futures, currency forwards, and options. Futures contracts are traded on organized exchanges to minimize credit risk. Currency forwards are entered into in order to hedge the exposure to changes in foreign currency exchange rates on foreign currency dominated portfolio holdings. Utah Housing Corporation (major component unit) enters into various rate swap contracts in order to increase funding capabilities. The Corporation sells variable rate bonds and minimizes the inherent risk with the use of floating-to-fixed interest rate swap contracts. See Note 3 for additional information about derivatives.

Receivables

Accounts receivables in the governmental and business-type activities consist mainly of amounts due from the Federal Government, customers, and others. Receivables from the Federal Government are reasonably assured; accordingly, no allowance for uncollectible accounts has been established.

Notes/mortgages receivable for governmental and business-type activities are primarily long-term loans for local governments and agricultural development, home mortgages, and individual student loans. The interest rates on the loans vary but are generally lower than market rates and, in some cases, are non-interest bearing. Student loans in the Student Assistance Programs (business-type activities) are fixed and variable rate federally insured loans. Student loans are insured at 95 to 100 percent of their principal balance depending on the date disbursed.

Accrued taxes include receivables for taxpayer-assessed taxes where the underlying exchange has occurred in the period ending June 30 or prior, net of applicable estimated refunds and allowances.

Note 5 provides a disaggregation of governmental and business-type receivables, including a breakout of current/noncurrent balances and established allowances.

Inventories and Prepaid Items

Proprietary funds and component units inventories are valued at the lower of cost or market. Cost evaluation methods include first-in-first-out (FIFO), last-in-first-out (LIFO), average cost, weighted average, weighted moving average, and retail inventory method.

Governmental fund inventories are recorded as expenditures when purchased except for Transportation Fund inventories that are recorded as expenditures when consumed. Transportation Fund inventories are valued using a weighted average cost.

Prepaid items related to governmental funds are immaterial and recorded as expenditures in the governmental funds financial statements when paid.

Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure (roads, bridges, drainage systems, lighting systems, and similar items), are reported in the applicable governmental or business-type activities columns, or in the component units column on the government-wide Statement of Net Assets. Capital assets of proprietary funds and fiduciary funds are also recorded in their respective fund statements. Capital assets are defined by the State as assets, which cost $5 thousand or more when acquired and have an estimated useful life greater than one year. Purchased or constructed capital assets are recorded at cost or at estimated historical cost where historical cost is not available. Donated fixed assets are valued at their estimated fair value at the date of donation.

Capital assets purchased by governmental funds are recorded as expenditures in the governmental fund financial statements. Interest expense for capital asset construction related to governmental activities is not capitalized. Interest expense incurred during construction of capital facilities related to business-type activities and component units is immaterial and is not capitalized in all cases.

Buildings, equipment, and other depreciable assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Years
Equipment	3–15
Aircraft and Heavy Equipment	5–30
Buildings and Improvements	30–40
Land Improvements	5–20
Infrastructure	15–80

As provided by GASB standards, the State has elected to use the "modified approach" to account for infrastructure assets (roads and bridges) maintained by the State's Department of Transportation. Under this approach, depreciation expense is not recorded and only improvements that expand the capacity or efficiency of an infrastructure asset are capitalized. Using this approach requires the State to: 1) maintain an inventory of the assets and perform periodic condition assessments; 2) estimate each year the annual amount to maintain and preserve the assets at the condition level set by the State; and 3) document that the assets are being preserved approximately at or above the condition level set by the State.

Most works of art and historical treasures are not capitalized or depreciated. These assets are held for public exhibition, education, or research rather than financial gain. These assets are also protected, unencumbered, and preserved and subject to policies requiring the proceeds from sales of collection items to be used to acquire other collection items. The State's assets of this nature include the State Fine Art Collection, photographs, prints, paintings, historical documents and artifacts, monuments, statues, and paleontological and archaeological collections.

Accrued Liabilities

Accrued liabilities include the liability for employee payrolls and liabilities accruing over time where demand for payment is due shortly after fiscal yearend. See Note 6 for additional information about accrued liabilities.

Deferred Revenue — Unearned and Unavailable

In the government-wide statements, proprietary fund statements, and fiduciary fund statements, unearned revenue is recorded when cash or other assets are received prior to being earned. In the governmental fund statements, deferred revenue is recorded when revenue is either unearned or unavailable. Deferred revenues for the Student Assistance Programs (enterprise fund) are primarily guarantee fees that are recognized as income over a period of ten years using the sum-of-the-years-digits method.

Policy Claims Liabilities

Policy claims liabilities are for insurance claims incurred prior to the reporting date and are based on actuarial estimates. Policy claims liabilities for Unemployment Insurance are for claims filed as of the reporting date. A substantial portion of policy claims liabilities is long-term in nature. Therefore, claims liabilities are reported as long-term liabilities on the Statement of Net Assets.

Long-term Debt

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds outstanding method or straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges (assets).

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The *Tax Reform Act of 1986* requires governmental entities issuing tax-exempt bonds to refund to the U.S. Treasury interest earnings on bond proceeds in excess of the yield on those bonds. Governmental entities must comply with arbitrage rebate requirements in order for their bonds to maintain tax-exempt status. Entities are required to remit arbitrage rebate payments for non-purpose interest to the federal government at least once every five years over the life of the bonds. Federal regulations also require the Student Assistance Programs to keep the yield on student loans within a designated percentage of the interest cost of the related tax-exempt borrowing. One method of reducing this yield is to make yield reduction payments to the United States Treasury. Estimated yield reduction payments may be made by the end of the tenth year and every fifth year thereafter during the life of the bonds. Some State of Utah bonds may be exempt from the rebate requirements if they meet certain statutory exceptions per the regulations.

Arbitrage liability is treated as an expense in the government-wide Statement of Net Assets and the proprietary fund financial statements when the liability is recognized. Arbitrage liability is recorded as an expenditure in the governmental funds financial statements when the liability is due. At June 30, 2004, the total estimated arbitrage rebate liability in the Student Assistance Programs (enterprise fund) was $61.766 million, of which $57.861 million represents yield reduction payments and $3.905 million represents the estimated liability for non-purpose interest. Other arbitrage liabilities are immaterial.

Compensated Absences and Leave/Postemployment Benefits

Employees' vacation leave is accrued at a rate of four hours every two weeks for the first five years of employment, and grows to a rate of seven hours every two weeks after 20 years of employment. There is no requirement to use vacation leave, but a maximum of 40 days may be carried forward at the beginning of each calendar year. Unused vacation leave is paid to employees upon termination.

Employees earn sick leave at a rate of four hours for each two-week period, with no limit to the amount that can be accumulated. The

State does not reimburse employees for unused sick leave upon termination except employees eligible for retirement. Sick leave is expended when used. At retirement, for participating agencies, the State will pay an employee up to 25 percent of the employee's accumulated sick leave and will pay for premiums to maintain health and life insurance coverage for up to five years or until the employee turns age 65, whichever comes first. The employee may use any remaining sick leave balances to acquire health insurance to age 65, and since fiscal year 1999, health insurance for the employee's spouse until they reach age 65, and Medicare supplement insurance after age 65 for both the employee and their spouse. An estimate of the liability for the above leave and retirement benefits has been recorded in the governmental activities column of the government-wide Statement of Net Assets.

The State maintains compensated absences and postemployment benefit pools within the General Fund, Uniform School Fund, and Transportation Fund. The ongoing payments from the pools are provided by charges to agency budgets as benefits are earned. Vacation leave taken as time off is paid from current budgets when used. Payment of leave balances at termination and payment of postemployment benefits are made from the compensated absences and postemployment benefit pools. Proprietary funds and private purpose trust funds of the primary government also participate in the pools and have no liability for leave or postemployment benefits once their contributions to the pools have been made.

The total liability of the governmental activities for vacation leave and postemployment benefits is recorded in the government-wide Statement of Net Assets as part of long-term liabilities. However, in accordance with GAAP, the liability is not recorded in the governmental funds financial statements. See Notes 10 and 18 for additional information about the liability.

Compensatory time for overtime worked may be earned up to a maximum of 80 hours. Any overtime exceeding 80 hours is paid when earned. In accordance with GAAP, compensatory time is expended when the leave is taken in governmental funds, but is expensed when earned for budgetary purposes.

Vacation earnings, sick leave earnings, and postemployment benefits policies vary slightly among component units and from the primary government's policies. Vacation leave is expended when earned and sick leave is expended when used.

Net Assets/Fund Balances

The difference between assets and liabilities is "Net Assets" on the government-wide, proprietary fund, and fiduciary funds financial statements, and "Fund Balance" on the governmental fund financial statements.

In the governmental fund financial statements, fund balances are classified as reserved, designated, or unreserved. Reserves represent those portions of fund balance not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

F. Revenues and Expenditures/Expenses

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State's general policy to use restricted resources first. However, the State has some programs that are funded by appropriations from both unrestricted resources and resources required by law to be deposited in a specific subfund for a specific purpose (which may include restricted resources). In those instances, it is the State's policy to expend those resources proportionally based on the amounts appropriated from each source.

Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when entitlement occurs. All federal reimbursement-type grants are recorded as revenues when the related allowable expenditures are incurred and all applicable eligibility requirements are met.

Federal grants include nonmonetary transactions for food and vaccine commodities. Commodities revenue and expenditures are valued at their federally reported value. Commodity inventories at yearend are immaterial. For the fiscal year ended June 30, 2004, the State reported revenue and expenditures of $10.618 million for commodities in the General Fund, and $12.186 million for commodities in the Uniform School Fund (special revenue fund).

Investment Income

Investment income includes interest, dividends and other earnings, and the change in fair value of investments. Negative investment income is reported where the decrease in the fair value of investments due to market conditions exceeded the other components of investment income.

In accordance with state law, interest and dividend income from investments in the Trust Lands permanent fund and the Tobacco Endowment Fund (nonmajor governmental fund) is assigned to and reported directly in the Uniform School Fund and the General Fund, respectively. One half of the applicable income reported in the General Fund is then transferred back into the Tobacco Endowment Fund to increase the principal in the fund as required by state law.

Retirement and Employee Benefit Costs

Most state employees participate in a pension system and/or plan administered by Utah Retirement Systems. Contributions collected for the pension systems and plans and the retirement benefits paid are both accounted for in the Pension Trust Funds. All costs for pension, health, and federal social security contributions are reported as expenditures in the appropriate function in governmental fund types or as expenses in applicable proprietary fund types. Pension and other benefit costs are recognized in the fiscal year in which the underlying payroll cost is incurred.

G. Interfund Transactions

Government-wide Financial Statements

Interfund Activity — In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity. However, interfund services, provided and used between different functional categories, have not been eliminated in order to avoid distorting the direct costs and program revenues of the applicable functions. Operating transfers between governmental and business-type activities are reported at the net amount.

Interfund Balances — Interfund receivables and payables have been eliminated from the government-wide Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

Governmental Fund Financial Statements

Interfund Activity — Interfund transactions for goods sold or services rendered for a price approximating their external exchange value, and employee benefit contributions are accounted for as revenues and expenditures/expenses in the funds involved.

Transfers are used to report flows of cash (or other assets) between funds without equivalent flows of assets in return or a requirement for repayment. The State's transfers are based on legislative appropriations or other legal authority. Transfers are presented in Note 13.

NOTE 2. BEGINNING NET ASSET ADJUSTMENTS AND OTHER CHANGES

Adjustments to beginning net assets of governmental activities reported on the Statement of Net Assets resulted in a net decrease of $290.708 million. These capital asset related adjustments decreased the recorded amount of infrastructure to correct an inadvertent overstatement that occurred in a prior year. The adjustments also increased the recorded amount of land for assets that were previously unrecorded, and increased the recorded amounts for buildings and construction-in-progress for payments of prior years that should have been capitalized rather than expensed. Had these changes been made in the prior year, the effect on governmental activities on the prior year Statement of Activities would have been as follows: $31.776 million reduction in expenses, and $322.484 million reduction in beginning net assets. The effects of these adjustments on beginning amounts reported for each component of capital assets is described in Note 8.

An adjustment was also made to increase beginning net assets of governmental activities reported on the Statement of Net Assets by $13.968 million. This adjustment was done to accrue estimated tobacco settlement monies due (but unavailable) to the State as of June 30, 2004, as required by GASB Technical Bulletin 2004–1, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*. Had this change been made in the prior year, the effect on governmental activities on the prior year Statement of Activities would have been as follows: $2.353 million reduction in revenues, and $16.321 million increase in beginning net assets. See Note 15 for additional information about the tobacco settlement agreement.

An adjustment was made to decrease the beginning net assets of the Investment Trust Fund reported on the Statement of Fiduciary Net Assets by $111.788 million. In the prior year, certain deposits by third party trustees on behalf of the State and its component units were treated as deposits of external participants and reported in the Investment Trust Fund. Under generally accepted accounting principles, those deposits should have been treated as deposits of internal participants and excluded from the presentation. See Note 4 for additional information about the Investment Trust Fund.

As a result of implementing GASB Statement 39, *Determining Whether Certain Organizations Are Component Units—an amendment of GASB Statement No. 14,* Utah State University (component unit) was required to include the Utah State University Development Foundation as a blended component unit in its financial statements. An adjustment of $8.534 million to increase the beginning net assets of Utah State University was made to reflect this change.

GASB Statement 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3* was early implemented for the fiscal year ended June 30, 2004. As a result, the disclosures related to deposit and investment risks were changed. The changes are reflected in Notes 3 and 4.

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits and investing for the primary government and its discrete component units is governed by the Utah Money Management Act (*Utah Code*, Title 51, Chapter 7) and rules of the State of Utah Money Management Council. However, the Act also permits certain funds that have a long-term perspective to make investments of a long-term nature, such as equities and bond mutual funds. In the primary government these are the Tobacco Endowment (special revenue fund), Trust Lands (permanent fund), Employers' Reinsurance Trust (private purpose trust), and Utah Educational Savings Plan Trust (private purpose trust). In the component units it is the college and university funds from gifts, federal or private grants, and the corpus of funds functioning as endowments. Exempt from the Act in the primary government is Utah Retirement Systems (pension trust funds). The discrete component units exempt from the Act are Utah Housing Corporation and Public Employees Health Program.

A. PRIMARY GOVERNMENT

Custodial Credit Risk—Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered. The Money Management Act requires deposits be in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The deposits for the primary government at June 30, 2004, were $90.093 million. Of these, $87.549 million were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The Money Management Act defines the types of securities authorized as appropriate investments and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

The Act authorizes investments in both negotiable and nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Service or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and Student Loan Marketing Association (Sallie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; and shares or certificates in a money market mutual fund as defined in the Act.

The Act permits investing according to the rules of the Money Management Council for certain funds with a long-term perspective and funds acquired by gift, private grant, and the corpus of funds functioning as endowments. The Council's Rule 2 allows the State to invest these funds in any of the above investments or in any of the following, subject to satisfying certain criteria: professionally managed pooled or commingled investment funds, or mutual funds which satisfy certain criteria; common stock, convertible preferred stock or convertible bonds; corporate bonds or debentures; and alternative investments as defined in the rule.

The primary government's investments at June 30, 2004, are presented below. All investments, except those of the Utah Retirement Systems (pension trust funds), are presented by investment type and debt securities are presented by maturity. The Utah Retirement Systems are presented consistent with their separately issued financial statements by investment type.

Primary Government Investments
(except Pension Trust Funds)
(Expressed in Thousands)

		Investment Maturities (in years)			
Investment Type	**Fair Value**	**Less Than 1**	**1–5**	**6–10**	**More Than 10**
Debt Securities					
U.S. Treasuries	$ 5,935	$ 1,657	$ 3,603	$ —	$ 675
U.S. Agencies	1,641,401	1,621,487	19,914	—	—
U.S. Unemployment Trust Pool	357,287	285,830	71,457	—	—
Corporate Debt	4,178,832	4,178,832	—	—	—
Money Market Mutual Fund	10,000	10,000	—	—	—
Commercial Paper	2,372	2,372	—	—	—
Bond Mutual Fund *	254,339	—	—	254,339	—
Repurchase Agreements	215,618	215,618	—	—	—
	6,665,784	$ 6,315,796	$ 94,974	$ 254,339	$ 675
Other Investments					
Equity Mutual Funds	7,318				
Equity Securities—Domestic	857,612				
Equity Securities—International	77,406				
Real Estate Held for Investment Purposes	1,354				
Real Estate Joint Ventures	358				
Component Units Investment in Primary Government's Investment Pool	(591,864)				
Total	$ 7,017,968				

* At June 30, 2004, the bond mutual fund had an average effective maturity of 7.7 years.

The majority of the primary government's U.S. agencies and corporate debt securities are variable-rate securities, most of which reset every three months to the market interest rate. Because these securities frequently reprice to prevailing market rates, interest rate risk is substantially reduced at each periodic reset date. In the table above, variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

U.S. agency debt securities of $1.2 billion owned by the primary government reset periodically and have a maximum maturity out to four years. The securities "step up" to higher interest rates at levels determined at the time of purchase. These securities are callable at par and may be called on a quarterly basis, or will mature at par if held to maturity. In the event that current market interest rates were to exceed the predetermined rates, the fair value of the securities would be impacted. Of the securities of this type held at June 30, 2004, none had predetermined interest rates below the current market rate. The above table reflects periodic interest rate adjustment dates that the securities can reasonably be expected to have market values that approximate their amortized cost values.

In addition, significant funds with a long-term investment perspective have the following mix of investments (percentages are of the fund's total investments). Trust Lands (permanent fund) – $261.822 million, 54.3 percent, in domestic equity securities; $157.606 million, 32.7 percent, in bond mutual fund; and $52.001 million, 10.8 percent, in international equity securities. Utah Educational Savings Plan Trust (private purpose trust) – $583.218 million, 77.7 percent, in domestic equity securities; $92.447 million, 12.3 percent, in bond mutual fund; and $25.406 million, 3.4 percent, in international equity securities.

Pension Trust Funds Investments
At December 31, 2003
(Expressed in Thousands)

Investment Type	Fair Value
Debt Securities—Domestic	$ 2,352,976
Debt Securities—International	506,280
Equity Securities—Domestic	5,284,041
Equity Securities—International	2,639,674
Short-Term Securities Pools	1,582,151
Mortgage Loans:	
Collateralized Loans	27
Real Estate Notes	6,635
Real Estate	480,709
Real Estate Joint Ventures	706,992
Private Equity (Venture Capital)	654,294
Guaranteed Investment Contract	53,728
Equity Securities—Domestic (Pooled)	216,198
Mutual Fund—International	153,770
Mutual Fund—Balanced	246,454
Investments Held by Broker Dealers Under Securities Lending Program:	
U.S. Government and Agency Securities	520,510
Corporate Debt Securities—Domestic	61,537
Debt Securities—International	284,352
Equity Securities—Domestic	624,223
Equity Securities—International	6,908
Total Investments	16,381,459
Securities Lending Collateral Pool	1,543,084
Total Pension Trust Funds	$ 17,924,543

Interest Rate Risk—Investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment.

The primary government's policy for managing interest rate risk is to comply with the State's Money Management Act. Section 51–7–11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270–365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years. Funds that follow Rule 2 of the Money Management Council may not allow the dollar-weighted average maturity of fixed-income securities to exceed ten years.

The Utah Retirement Systems (URS) manage their exposure to fair value loss arising from increasing interest rates by complying with the following policy: An individual debt securities investment manager's portfolio shall have an effective duration between 75 and 125 percent of the effective duration of the appropriate index.

Duration is a measure of a debt investment's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investments full price.

The URS compares an investment's effective duration against the Lehman Brothers Aggregate Index for domestic debt securities and the Lehman Brothers Global Aggregate Index for international debt securities. The index range at December 31, 2003, was 3.38 – 5.63 for domestic debt securities and 2.50 – 7.50 for international debt securities. At December 31, 2003, no individual debt security investment manager's portfolio was outside of the policy guidelines. At December 31, 2003, the following tables show the investments by investment type, amount and the effective weighted duration rate.

Pension Trust Funds
Debt Securities Investments, Domestic
(Expressed in Thousands)

Investment	Fair Value	Effective Weighted Duration Rate
Asset backed securities	$ 186,374	1.52
Commercial mortgage — backed securities	32,564	4.39
Corporate bonds	455,367	5.41
Corporate convertible bonds	2,233	0.15
Fixed income derivatives — options	(613)	NA
Government agencies	145,270	4.93
Government bonds	339,712	8.47
Government mortgage backed securities	908,642	3.10
Index linked government bonds	90,149	5.14
Municipal/provincial bonds	15,725	11.54
Non-government backed C.M.O.'s	96,190	2.77
Other options	(232)	NA
Pooled debt securities	663,642	NA
Total debt securities investments, domestic	$ 2,935,023	4.50

Pension Trust Funds
Debt Securities Investments, International
(Expressed in Thousands)

Investment	Fair Value	Effective Weighted Duration Rate
Asset backed securities	$ 9,457	4.23
Commercial mortgage — backed securities	4,835	3.27
Corporate bonds	347,980	5.79
Government agencies	24,237	4.32
Government bonds	331,912	4.79
Government mortgage backed securities	54,915	1.84
Municipal/provincial bonds	4,602	7.06
Non-government backed C.M.O.'s	12,694	12.84
Total debt securities investments, international	$ 790,632	5.00

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The primary government, with the exception of the Utah Retirement Systems (URS), follows the Money Management Act as previously discussed as its policy for reducing exposure to investment credit risk.

The primary government's rated debt investments as of June 30, 2004, with the exception of URS, were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Primary Government Rated Debt Investments
(except Pension Trust Funds)
(Expressed in Thousands)

Rated Debt Investments	Fair Value	Quality Ratings AAA	AA	A	A1	Unrated
U.S. Agencies	$ 1,641,401	$ 1,576,187	$ —	$ 65,214	$ —	$ —
Corporate Debt	$ 4,178,832	$ 40,006	$ 537,616	$ 3,601,210	$ —	$ —
Money Market Mutual Fund	$ 10,000	$ —	$ —	$ —	—	$ 10,000
Commercial Paper	$ 2,372	$ —	$ —	$ —	$ 2,372	$ —
Bond Mutual Fund	$ 254,339	$ —	$ —	$ —	—	$ 254,339
Repurchase Agreements – Underlying:						
U.S. Agency Securities	$ 208,452	$ 201,066	$ 900	$ —	$ —	$ 6,486
Corporate Debt	$ 4,466	$ —	$ —	$ —	$ 4,466	$ —
Municipal/Public Bonds	$ 2,700	$ 2,700	$ —	$ —	$ —	$ —

The Utah Retirement Systems (URS) expects its domestic debt securities investment managers to maintain diversified portfolios by sector using the following guidelines:

- U.S. government and agency securities — no restriction.
- Total portfolio quality shall maintain a minimum overall rating of "A" (S&P) or equivalent rating.
- Securities with a quality rating of BBB- and below are considered below grade and no more than 1 percent of an investment manager's assets at market with a single issuer of 5 percent of the total portfolio can be below grade.

Upon approval, the international debt securities investment managers may hold up to 25 percent of the market value of their portfolios in securities rated below investment grade (S&P index BBB- or Moody's index Baa3). The remaining assets shall have on average an investment grade rating.

The weighted quality rating average of the domestic debt securities, excluding pooled investments, at December 31, 2003 was AA and the fair value of below grade investments was $71.508 million or 3.15 percent of the domestic portfolio. The weighted quality rating average of the international debt securities investments, at December 31, 2003 was A and the fair value of below grade investments was $181.915 million or 23.01 percent of the international portfolio.

The following table presents the URS ratings as of December 31, 2003:

Pension Trust Funds
Debt Securities Investments at Fair Value
(Expressed in Thousands)

Quality Rating	Domestic	International	Fair Value
AAA	$ 751,754	$ 330,684	$ 1,082,438
AA+	9,260	17,089	26,349
AA	17,374	5,026	22,400
AA-	11,396	57,753	69,149
A+	75,275	12,931	88,206
A	89,588	21,218	110,806
A-	55,009	24,827	79,836
BBB+	69,362	22,716	92,078
BBB	107,134	57,593	164,727
BBB-	66,642	38,388	105,030
BB+	4,343	927	5,270
BB	—	141,159	141,159
BB-	—	314	314
B+	—	975	975
D	—	152	152
NR	523	—	523
Total credit risk Debt securities	1,257,660	731,752	1,989,412
U.S. Government and Agencies**	1,013,721	58,880	1,072,601
Pooled investments*	663,642	—	663,642
Total debt Securities Investments	$2,935,023	$ 790,632	$ 3,725,655

* Ratings of pooled investments were unavailable.
** Approximately 73 percent of this category is debt securities of U.S. Agencies rated AAA or equivalent.

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counter party, the State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The primary government does not have a formal policy for custodial credit risk.

The primary government's investments at June 30, 2004, except those of the Utah Retirement Systems, were held by the State or in the State's name by the State's custodial banks; except $215.618 million of repurchase agreements where the underlying securities were uninsured and held by the investment's counterparty, not in the name of the State.

At December 31, 2003, the Utah Retirement Systems (URS) debt securities investments were registered in the name of URS and were held in the possession of the URS custodial bank, The Northern Trust Company.

Concentration of Credit Risk—Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Except for the Utah Retirement Systems (pension trust funds), the primary government's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to between 5 and 10 percent depending upon the total dollar amount held in the portfolio. Funds that follow Rule 2 of the Money Management Council are limited to investments in equity securities and fixed income corporate securities to no more than 5 percent of all funds in any one issuer and no more than 25 percent of all funds in any one industry. No more than 5 percent of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5 percent of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. The Money Management Council limitations do not apply to securities issued by the U.S. government and its agencies.

The primary government had debt securities investments at June 30, 2004, with more than 5 percent of the total investments in securities of the Federal Home Loan Bank and the Federal Home Loan Mortgage Corporation. These investments represented 14 percent and 6.1 percent, respectively, of total investments.

The Utah Retirement Systems debt securities investments had no single issuer investments that exceed their portfolio investment guidelines by sector and by issuer as follows:

- AAA/Aaa Debt Securities — no more than 5 percent of an investment manager's assets at market with a single issuer.
- AA/Aa Debt Securities — no more than 4 percent of an investment manager's assets at market with a single issuer.
- A/A Debt Securities — no more than 3 percent of an investment manager's assets at market with a single issuer.
- BBB/Baa Debt Securities — no more than 2 percent of an investment manager's assets at market with a single issuer.
- For Debt Securities — no individual holding shall constitute more than 10 percent of the market value of outstanding debt of a single issuer with the exception of the U.S. government or its agencies, or collateralized mortgage obligations.

- For Domestic Equity Securities — no more than 4 percent of an investment manager's assets at market with a single issuer.
- For International Equity Securities — no more than 8 percent of an investment manager's assets at market with a single issuer.

Foreign Currency Risk—Investments

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

The primary government, except the Utah Retirement Systems (pension trust funds), does not have a formal policy to limit foreign currency risk.

The Utah Educational Savings Plan Trust (private purpose trust) has $25.406 million and the Trust Lands (permanent fund) has $52.001 million invested in international equity funds. As such, no currency denomination is presented.

The Utah Retirement Systems (URS) manage their exposure to fair value loss by requiring their international securities investment managers to maintain diversified portfolios by sector and by issuer to limit foreign currency and security risk.

Risk of loss arises from changes in currency exchange rates. The URS exposure to foreign currency risk is presented on the following table.

Pension Trust Funds
Foreign Currency Risk
International Investment Securities at Fair Value
At December 31, 2003
(Expressed in Thousands)

Currency	Short Term	Debt	Equity	Total
Argentine peso	$ —	$ 152	$ 1,285	$ 1,437
Aruban guilder	—	373	—	373
Australian dollar	(25)	2,592	38,875	41,442
Bermudin dollar	—	—	7,016	7,016
Bolivian boliviano	—	—	3,372	3.372
Brazilian real	—	—	21,216	21,216
Canadian dollar	242	20,059	44,303	64,604
Cayman Islands dollar	—	8,523	1,224	9,747
CFA franc BCEAO	—	3,038	—	3,038
Chilean peso	—	—	401	401
Chinese yuan renminbi	—	—	3,061	3,061
Danish krone	49	12,145	21,402	33,596
Estonia kroon	—	—	2,625	2,625
Euro	7,445	215,669	635,974	859,088
Hong Kong dollar	855	—	11,929	12,784
Indian rupee	—	—	3,470	3,470
Japanese yen	924	61,164	421,436	483,524
Mexican peso	—	1,342	8,023	9,365
Netherlands Antillan guilder	—	—	7,040	7,040
New Israel shekel	—	—	1,276	1,276
New Taiwan dollar	807	—	8,656	9,463
New Zealand dollar	48	1,738	5,447	7,233
Norwegian krone	82	9,190	13,266	22,538
Panamanian balboa	—	—	1,260	1,260
Pound sterling	(1,265)	47,974	363,388	410,097
Russian ruble	—	—	5,125	5,125
Singapore dollar	1	3,670	10,604	14,275
South African rand	—	—	9,871	9,871
South Korean won	—	—	34,808	34,808
Swedish krona	(70)	17,845	31,185	48,960
Swiss franc	(101)	—	158,146	158,045
International equity mutual fund (various currencies)	—	—	153,770	153,770
Total Securities subject to foreign currency risk	8,992	405,474	2,029,454	2,443,920
United States dollars (securities held by International investment managers)	157,749	385,158	770,898	1,313,805
Total international investment securities	$ 166,741	$ 790,632	$ 2,800,352	$ 3,757,725

B. **COMPONENT UNITS**

Custodial Credit Risk—Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the component unit's deposits may not be recovered.

The component units follow the Money Management Act by making deposits only in qualified financial institutions in accordance with the Act. The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The deposits for the component units at June 30, 2004, were $124.639 million. Of these, $115.439 million were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The component units follow the applicable investing criteria described above for the primary government. College and university funds from gifts, private grants, and the corpus of funds functioning as endowments are invested according to Rule 2 of the Money Management Council. Utah Housing Corporation and Public Employees Health Program are exempt from the Money Management Act.

The component units' investments at June 30, 2004, are presented below.

Component Units Investments
(Expressed in Thousands)

		Investment Maturities (in years)				
Investment Type	Fair Value	Less Than 1	1–5	6–10	11–20	More Than 20
Debt Securities						
U.S. Treasuries *	$ 150,174	$ 18,130	$ 101,909	$ 30,135	$ —	$ —
U.S. Agencies	333,564	62,605	165,873	537	104,549	—
Corporate Debt *	38,569	456	15,631	18,416	3,190	876
Government Securities Mutual Fund	50,917	50,917	—	—	—	—
Money Market Mutual Funds	161,909	161,909	—	—	—	—
Negotiable Certificate of Deposits	2,637	2,019	618	—	—	—
Municipal/Public Bonds	2,108	1,187	—	83	838	—
Repurchase Agreements	17,348	17,348	—	—	—	—
Government Mortgage-backed Securities	38,326	—	753	3,653	25,228	8,692
Asset-backed Securities	1,696	—	—	—	—	1,696
Guaranteed Investment Contracts	291,944	237,978	15,047	—	38,919	—
Bond Mutual Funds	81,472	8,070	9,753	63,649	—	—
Securities Lending Cash Collateral Pool	23,290	23,290	—	—	—	—
	1,193,954	$ 583,909	$ 309,584	$ 116,473	$ 172,724	$ 11,264
Other Investments						
Utah Public Treasurer's Investment Fund	591,864					
Equity Securities	64,495					
Equity Mutual Funds	341,906					
Cash Value of Life Insurance	41					
Real Estate Held for Investment Purposes	864					
Total	$ 2,193,124					

* Investments held by broker dealers under securities lending program are $20.046 million of U.S. treasuries and $2.865 million of corporate debt.

Interest Rate Risk—Investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The component units' policy for managing interest rate risk is the same as described above for the primary government.

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The component units' policy for reducing exposure to investment credit risk is the same as described above for the primary government. The component units' debt investments as of June 30, 2004, were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Component Units Rated Debt Investments
(Expressed in Thousands)

Rated Debt Investments	Fair Value	Quality Ratings AAA	AA	A	Unrated
U.S. Agencies	$ 333,564	$ 328,931	$ —	$ 4,460	$ 173
Corporate Debt	$ 38,569	$ 27,763	$ —	$ 9,491	$ 1,315
Government Securities Mutual Fund	$ 50,917	$ —	$ —	$ —	$ 50,917
Money Market Mutual Funds	$ 161,909	$ —	$ —	$ —	$ 161,909
Negotiable Certificate of Deposits	$ 2,637	$ —	$ —	$ —	$ 2,637
Municipal/Public Bonds	$ 2,108	$ 838	$ —	$ —	$ 1,270
Repurchase Agreements – Underlying Securities	$ 17,348	$ —	$ —	$ —	$ 17,348
Government Mortgage-backed Securities	$ 38,326	$ —	$ —	$ —	$ 38,326
Asset-backed Securities	$ 1,696	$ —	$ —	$ —	$ 1,696
Guaranteed Investment Contracts	$ 291,944	$ —	$ —	$ —	$ 291,944
Bond Mutual Funds	$ 81,472	$ 48	$ —	$ —	$ 81,424
Securities Lending Cash Collateral Pool	$ 23,290	$ —	$ —	$ —	$ 23,290

Custodial Credit Risk—Investments

Custodial credit risk for investments is the risk that, in the event of a failure of the counter party, the component units will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The component units do not have a formal policy for custodial credit risk.

The various component unit's investments at June 30, 2004, were held by the component unit or in the name of the component unit by the component unit's custodial bank or trustee, except the following which where were uninsured and held by the counterparty or the counterparty's trust department or agent but not in the component unit's name: $36.32 million of U.S. treasuries, $151.576 million of U.S. agencies, $8.946 million of corporate debt, $1.083 million of municipal/public bonds, $17.159 million of underlying securities for repurchase agreements, and $11.893 of equity securities.

Concentration of Credit Risk—Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

Except for Utah Housing Corporation, the component units' policy for reducing this risk of loss is the same as described above for the primary government.

The Utah Housing Corporation places no limit on the amount the Corporation may invest in any one issuer. More than five percent of the Corporation's investments are in Bayerische Guaranteed Investment Contracts, Trinity Guaranteed Investment Contracts, CDC Guaranteed Investment Contracts, and the Federal National Mortgage Association. These investments are 12.64 percent, 13.07 percent, 10.21 percent, and 6.86 percent, respectively, of the Corporation's total investments.

C. **Securities Lending**

The Utah Retirement Systems (pension trust funds) and the Public Employees Health Program (component unit) participate in security lending programs as authorized by their Boards. The types of securities lent are U.S. government securities, equity securities, and corporate bonds and notes. Under these programs, securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and irrevocable bank letters of credit equal to 102 percent of the market value of the domestic securities on loan and 105 percent of the market value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. There are no restrictions on the amount of loans that can be made. For both state entities, their custodial bank is the agent for its securities lending program. Securities under loan are maintained in both state entities' financial records. Corresponding liabilities for collateral received are recorded at the fair value.

At yearend, neither the Utah Retirement Systems nor Public Employees Health Program had any credit risk exposure to borrowers because the collateral exceeded the amount borrowed. The securities on loan at yearend for the entities were $1.498 billion and $22.911 million, respectively, and the collateral received for those securities on loan was $1.543 billion and $24.158 million (includes $868 thousand of non-cash collaterals), respectively, with carrying amount and fair value being the same. Under the terms of the lending agreement, both state entities are indemnified against loss should the lending agent be unable to recover borrowed securities and distributions due to borrower insolvency or failure of the lending agent to properly evaluate the creditworthiness of the borrower. In addition, they are indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis. All securities loaned can be terminated on demand by either the state entity or the borrower. Cash collateral is invested in the lending agent's short-term investment pool. The short-term investment pool guidelines specify that a minimum of 20 percent of the invested cash collateral is to be available each business day and that the dollar weighted average maturity of holdings should not exceed 60 days. The relationship between the maturities of the short-term investment pool and each of the state entities' loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the state entities cannot determine. Since the securities lending collateral is in a pool maintained by the custodial bank, the state entities do not have the ability to pledge or sell the securities, and it is not necessary to report the total income and expenses of securities lending.

D. Derivative Financial Instruments

Utah Retirement Systems

The Utah Retirement Systems (URS) (pension trust funds) invests in derivative financial investments as authorized by Board policy. The derivatives are reported at their fair values on the statement of net assets. Derivatives are financial arrangements between two parties whose payments are based on, or "derived" from the performance of some agreed upon benchmark. At December 31, 2003 the URS had three types of derivative financial investments: futures, currency forwards, and options.

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges (exchange traded), thereby minimizing the URS credit risk. The net change in the futures contract value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included with trading account securities gains (losses) in the Statement of Changes in Net Assets. At yearend, the URS investments had the following futures balances (expressed in millions):

	Value Covered By Contract
Long-cash and cash equivalent futures	$ 101.373
Long-equity futures	$ 878.784
Short-equity futures	$ (83.693)
Long-debt securities futures	$ 215.484
Short-debt securities futures	$ (215.434)

Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency exchange rates on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in net realized gains or losses on foreign currency related transactions. At yearend the URS investments included the following currency forwards balances (expressed in millions):

Currency forwards (*pending foreign exchange purchases)*	$ 588.178
Currency forwards (*pending foreign exchange sales)*	$ (586.785)

Options represent or give buyers the right, but not the obligation, to buy or sell an asset at a preset price over a specific period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, URS receives a premium at the outset of the agreement and bear the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, URS pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. At yearend the URS investments had the following options balances (expressed in thousands):

	Value Covered By Contract
Cash and cash equivalent purchased put options	$ (359)
Fixed income written put options	$ (138)
Fixed income written call options	$ (475)

Utah Housing Corporation

The following are disclosures for derivative financial instruments held by Utah Housing Corporation (major component unit).

Objective—In order to protect against the potential of rising interest rates, the Corporation has entered into 40 separate pay-fixed, receive-variable interest rate swaps and one interest rate cap agreement as of June 30, 2004. The cost of these swaps is less than what the Corporation would have paid to issue fixed rate debt. The Corporation's swaps are all similar in nature and summary information is included in this report. More detailed information about each swap is included in the Corporation's separately issued financial statements.

Terms, Fair Values, and Credit Risk—The terms, including the fair values of the outstanding swaps as of June 30, 2004, are summarized below. The notional amounts of the swaps match the principal amounts of the associated debt at the time of issuance. Except as discussed under rollover risk, the Corporation's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable.

Utah Housing Corporation
Interest Rate Swap and Cap Agreements
June 30 2004
(Expressed in Thousands)

Outstanding Notional Amount	Issue Dates	Fixed Rate Paid by the Corporation	Variable Rate Received from Counterparty	Fair Values	Termination Dates
Interest Rate Swap Agreements					
$ 94,305	2000–2002	4.640% to 7.760%	LIBOR* plus .15%	$ (8,379)	2006–2019
314,310	2000–2005	3.939% to 5.610%	BMA** plus .27%	(25,960)	2018–2028
$ 408,615				$ (34,339)	
Interest Rate Cap Agreements					
$ 1,955	2005	0.510%	Excess of BMA ** over 5.73%	$ (93)	2027

* London Interbank Offered Rate
** The Bond Market Association Municipal Swap Index

Fair Values—Because interest rates have declined, all swaps had a negative fair value to the Corporation as of June 30, 2004. The negative fair values are a function of declining interest rates and the remaining term on the swap contracts. Because the coupons on the Corporation's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. However, bond proceeds were used to acquire fixed rate mortgage loans, which support the fixed payer rate on the swaps. Although these mortgage loans do have higher than current market interest rates, they have not been adjusted for fair value on the financial statements.

The fair values of the swap contracts were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risk — As of June 30, 2004, the Corporation was not exposed to credit risk on any of its outstanding swaps because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the Corporation would be exposed to credit risk in the amount of the derivatives' fair value. The Corporation executes swap transactions with two counterparties, Lehman Brothers Financial Products, Inc. and Lehman Brothers Derivative Products, Inc. Both counterparties are rated AAA/Aaa.

Basis Risk — The Corporation's tax-exempt variable-rate bond coupon payments are equivalent to the BMA rate. Its taxable variable-rate bond coupon payments are equivalent to the LIBOR rate. The Corporation is therefore not exposed to basis risk except as disclosed below under the tax risk.

Tax risk / Cross-over — Nineteen of the Corporation's BMA based swaps are exposed to basis risk should Congress or other federal branches of government propose or pass legislation (a "Tax Event"), that causes the relationship between LIBOR and BMA to exceed 75 percent for a continuous period of 180 days. If these two triggers occur, the result would be that the swap provider would pay the Corporation 68 percent of the LIBOR rate regardless of what the BMA rate is. In addition, two of the Corporations BMA based Cross-over Swaps are also exposed to basis risk if the LIBOR rate is 3.5 percent or greater. When the LIBOR rate is 3.5 percent or greater, the provider will pay the Corporation 68 percent of the LIBOR rate regardless of what the BMA rate is. As of June 30, 2004, no "Tax Event" or "Cross-over Event" has occurred.

Termination Risk — The Corporation or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract.

Rollover Risk — The Corporation is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. When these swaps terminate, or in the case of the termination option, the Corporation will not realize the synthetic rate offered by the swaps on the underlying debt issues. As of June 30, 2004, the Corporation's swap termination dates ranged from 6.5 to 24 years prior to the maturity dates of the associated debt.

NOTE 4. INVESTMENT POOL

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF) investment pool. The PTIF is available for investment of funds administered by any Utah public treasurer. Participation is not required and no minimum balance or minimum/maximum transaction is required. State agencies and funds that are authorized to earn interest also invest in the PTIF as an internal investment pool. No separate report as an external investment pool has been issued for the PTIF.

The PTIF is not registered with the SEC as an investment company and is not rated. The PTIF is authorized and regulated by the Utah Money Management Act, (*Utah Code* Title 51, Chapter 7). The Act establishes the Money Management Council, which oversees the activities of the State Treasurer and the PTIF. The Act lists the investments that are authorized which are high-grade securities and, therefore, there is very little credit risk except in the most unusual and unforeseen circumstances. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated to participants on the ratio of the participant's share to the total funds in the PTIF based on the participant's average daily balance. The PTIF allocates income and issues statements on a monthly basis. Twice a year, at June 30 and December 31, which are the accounting periods for public entities, the investments are valued at fair value and participants are informed of the fair value valuation factor that enables them to adjust their statement balances to fair value.

The PTIF condensed financial statements, inclusive of external and internal participants along with the portfolio statistics for the fiscal year ended June 30, 2004, are as follows:

Public Treasurer's Investment Fund
Statement of Net Assets
June 30, 2004
(*Expressed in Thousands*)

Assets	
Cash and Cash Equivalents	$ 28,042
Investments	5,845,489
Receivable from broker	59
Interest Receivable	11,576
Net Assets	$ 5,885,166
Net Assets Consist of:	
External Participant Account Balances	$ 3,814,816
Internal Participant Account Balances:	
Primary Government	1,453,979
Component Units	591,864
Undistributed Reserves and Unrealized Gains/Losses	24,507
Net Assets	$ 5,885,166
Participant Account Balance Net Asset Valuation Factor	1.000703

Public Treasurer's Investment Fund
Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2004
(*Expressed in Thousands*)

Additions	
Pool Participant Deposits	$ 8,468,380
Investment Income:	
Investment Earnings	90,746
Fair Value Increases (Decreases)	(4,135)
Total Investment Income	86,611
Less Administrative Expenses	(123)
Net Investment Income	86,488
Total Additions	8,554,868
Deductions	
Pool Participant Withdrawals	8,364,910
Earnings Distributions	89,928
Total Deductions	8,454,838
Net Increase From Operations	100,030
Net Assets	
Beginning of Year	5,785,136
Net Assets – End of Year	$ 5,885,166

Public Treasurer's Investment Fund
Portfolio Statistics

June 30, 2004	Range of Yields	Weighted Average Maturity
Money Market Mutual Fund	1.02% – 1.10%	59 days
Certificates of Deposit	1.20% – 1.60%	63.96 days
U.S. Government Securities	1.10% – 2.30%	66.34 days
Corporate Bonds and Notes	1.16% – 3.39%	51.28 days

June 30, 2004	Weighted Average Yield	Average Adjusted Maturity
Total Investment Fund	1.59%	55.43 days

Deposits and Investments

The following disclosure of deposits and investments is for the PTIF, which includes external and internal participants. These assets are also included in the Note 3 disclosures of deposits and investments for the primary government. To avoid duplication, some of the detailed information in Note 3 has not been repeated in this Note.

Custodial Credit Risk—Deposits

The custodial credit risk for deposits is the risk that in the event of a bank failure, the PTIF's deposits may not be recovered. The PTIF follows the Money Management Act by making deposits only in qualified financial institutions in accordance with the Act.

The deposits in the bank in excess of the insured amount are uninsured and uncollateralized. Deposits are not collateralized nor are they required to be by state statute. The deposits for the PTIF at June 30, 2004, were \$44.252 million. Of those, \$43.852 million were exposed to custodial credit risk as uninsured and uncollateralized.

Investments

The PTIF follows the Money Management Act by investing only in securities authorized in the Act. See Note 3 for information on authorized investments.

The PTIF investments at June 30, 2004, are presented below.

Public Treasurer's Investment Fund Investments
(Expressed in Thousands)

		Investment Maturities (in years)	
Investment Type	Fair Value	Less Than 1	1–5
Debt Securities			
U.S. Agencies	\$ 1,640,447	\$ 1,620,634	\$ 19,813
Corporate Debt	4,178,832	4,178,832	—
Money Market Mutual Fund	10,000	10,000	—
	\$ 5,829,279	\$ 5,809,466	\$ 19,813

The majority of the PTIF's U.S. agencies and corporate debt securities are variable-rate securities, most of which reset every three months to the market interest rate. Because these securities frequently reprice to prevailing market rates, interest rate risk is substantially reduced at each periodic reset date. In the table above, variable-rate securities are presented according to the length of time until the next reset date rather than the stated maturity.

U.S. agency debt securities of $1.2 billion of the PTIF reset periodically and have a maximum maturity out to four years. The securities "step up" to higher interest rates at levels determined at the time of purchase. These securities are callable at par and may be called on a quarterly basis, or will mature at par if held to maturity. In the event that current market interest rates were to exceed the predetermined rates, the fair value of the securities would be impacted. Of the securities of this type held at June 30, 2004, none had predetermined interest rates below the current market rate. The above table reflects periodic interest rate adjustment dates that the securities can reasonably be expected to have market values that approximate their amortized cost values.

Interest Rate Risk—Investments

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The PTIF's policy for managing interest rate risk is to comply with the State's Money Management Act. See Note 3 for information on requirements of the Act related to interest rate risk.

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The PTIF follows the Money Management Act as its policy for reducing exposure to investment credit risk. The PTIF's rated debt investments as of June 30, 2004, were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Public Treasurer's Investment Fund Rated Debt Investments
(Expressed in Thousands)

	Fair	Quality Ratings			
Rated Debt Investments	**Value**	**AAA**	**AA**	**A**	**Not Rated**
U.S. Agencies................................	$ 1,640,447	$ 1,575,334	$ —	$ 65,113	$ —
Corporate Debt.............................	$ 4,178,832	$ 40,006	$ 537,616	$ 3,601,210	$ —
Money Market Mutual Fund	$ 10,000	$ —	$ —	$ —	$ 10,000

Concentration of Credit Risk—Investments

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The PTIF's policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5 percent of the total dollar amount held in the portfolio. The Money Management Council limitations do not apply to securities issued by the U.S. government and its agencies. The PTIF had debt securities investments at June 30, 2004, with more than 5 percent of the total investments in Federal Home Loan Bank and Federal Home Loan Mortgage Corporation. These investments represented 17.8 percent and 7.8 percent, respectively, of total investments.

NOTE 5. RECEIVABLES

Receivables as of June 30, 2004, consisted of the following (in thousands):

	Accounts Receivable					
	Federal	Customer	Other	Interest	Taxes	Notes/ Mortgages
Governmental Activities:						
General Fund	$ 306,453	$ 213,209	$ 609	$ 26	$ 234,748	$ 4,671
Uniform School Fund	38,894	300	100	—	400,712	5,329
Transportation Fund	58,519	143	6,542	—	59,305	503
Centennial Highway Fund	27,392	—	—	—	690	—
Trust Lands	—	—	11,991	936	—	6,454
Nonmajor Funds	—	316	30,341	29	—	155
Internal Service Funds	—	3,731	—	—	—	—
Adjustments:						
Fiduciary Funds	—	—	1,166	—	—	—
Total Receivables	431,258	217,699	50,749	991	695,455	17,112
Less Allowance for Uncollectibles:						
General Fund	—	(56,352)	—	—	(13,382)	(1,200)
Uniform School Fund	—	—	—	—	(94,914)	—
Transportation Fund	—	—	(200)	—	(1,035)	—
Centennial Highway Fund	—	—	—	—	(48)	—
Internal Service Funds	—	(131)	—	—	—	—
Receivables, net	$ 431,258	$ 161,216	$ 50,549	$ 991	$ 586,076	$ 15,912
Current Receivables	$ 431,258	$ 142,107	$ 39,073	$ 991	$ 537,926	$ 2,234
Noncurrent Receivables	—	19,109	11,476	—	48,150	13,678
Total Receivables (net)	$ 431,258	$ 161,216	$ 50,549	$ 991	$ 586,076	$ 15,912
Business-type Activities:						
Student Assistance Programs	$ 7,639	$ 778	$ —	$ 15,715	$ —	$ 1,260,930
Unemployment Compensation	196	68,933	—	—	—	—
Water Loan Programs	—	112	—	7,977	—	442,073
Nonmajor Funds	—	8,632	1,042	3,294	—	247,973
Total Receivables	7,835	78,455	1,042	26,986	—	1,950,976
Less Allowance for Uncollectibles:						
Student Assistance Programs	—	—	—	—	—	(4,881)
Unemployment Compensation	—	(12,397)	—	—	—	—
Water Loan Programs	—	—	—	—	—	—
Receivables, net	$ 7,835	$ 66,058	$ 1,042	$ 26,986	$ 0	$ 1,946,095

Accounts receivable balances are an aggregation of amounts due from the federal government, customers and others. Receivables from customers include charges for services to local governments, fees and fines issued by the courts and corrections, employer contributions for unemployment benefits, and receivables as a result of overpayments to individuals receiving state assistance.

Receivables for fiduciary funds listed above represent amounts due from fiduciary funds that were reclassified as external receivables on the government-wide Statement of Net Assets.

Aggregated receivables for component units at June 30, 2004, were $1.114 billion for major component units and $52.086 million for nonmajor component units, net of an allowance for doubtful accounts of $40.0 million and $3.206 million, respectively.

NOTE 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2004, consisted of the following (in thousands):

	Salaries/ Benefits	Service Providers	Vendors/ Other	Government	Tax Refunds	Interest	Total
Governmental Activities:							
General Fund	$ 65,888	$ 150,077	$ 25,849	$ 74,500	$ 2,268	$ —	$ 318,582
Uniform School Fund	3,743	2,060	6,199	33,148	15,661	—	60,811
Transportation Fund	7,683	168	64,495	27,680	2,474	—	102,500
Centennial Highway Fund	—	—	1,806	—	—	—	1,806
Nonmajor Funds	56	—	17,319	351	—	34,664	52,390
Internal Service Funds	2,178	—	8,707	1,489	—	6	12,380
Adjustments:							
Fiduciary Funds	—	—	—	3,202	—	—	3,202
Other	—	—	—	—	—	1,630	1,630
Total Governmental Activities	$ 79,548	$ 152,305	$ 124,375	$ 140,370	$ 20,403	$ 36,300	$ 553,301
Business-type Activities:							
Student Assistance Programs	$ 1,625	$ —	$ 8,873	$ 2,047	$ —	$ 2,412	$ 14,957
Unemployment Compensation	—	601	—	13	—	—	614
Water Loan Programs	—	—	634	—	—	5	639
Nonmajor Funds	1,410	—	9,918	699	—	141	12,168
Total Business-type Activities	$ 3,035	$ 601	$ 19,425	$ 2,759	$ 0	$ 2,558	$ 28,378

Accounts payable and accrued liability balances are an aggregation of amounts due to: 1) state employees for salaries/benefits; 2) service providers for childcare, job services and health services; 3) vendors and miscellaneous suppliers; 4) local and federal governments for services; 5) individuals and others as a result of tax overpayments; and 6) interest due on bonds and other obligations.

Adjustments for fiduciary funds listed above represent amounts due to fiduciary funds that were reclassified as external payables on the government-wide Statement of Net Assets. Other adjustments are due to differences in the presentation and the basis of accounting between the fund financial statements and the government-wide Statement of Net Assets.

NOTE 7. INTERFUND BALANCES AND LOANS

Interfund Balances

Interfund balances at June 30, 2004, consisted of the following (in thousands):

Due to General Fund from:	
Uniform School Fund	$ 382
Transportation Fund	1,675
Trust Lands Fund	22
Nonmajor Governmental Funds	1,159
Unemployment Compensation Fund	2,341
Water Loan Programs	30
Nonmajor Enterprise Funds	7,525
Internal Service Funds	1,442
Fiduciary Funds	1,163
Total due to General Fund from other funds	$ 15,739
Due to Uniform School Fund from:	
General Fund	305
Trust Lands Fund	11
Unemployment Compensation Fund	350
Nonmajor Enterprise Funds	2,546
Internal Service Funds	615
Total due to Uniform School Fund from other funds	$ 3,827
Due to Transportation Fund from:	
General Fund	43
Uniform School Fund	2
Nonmajor Governmental Funds	12
Nonmajor Enterprise Funds	1
Internal Service Funds	650
Total due to Transportation Fund from other funds	$ 708
Due to Trust Lands Fund from Nonmajor Enterprise Funds	$ 3,663
Due to Nonmajor Governmental Funds from:	
General Fund	843
Transportation Fund	82
Nonmajor Governmental Funds	2,685
Nonmajor Enterprise Funds	321
Internal Service Funds	72
Total due to Nonmajor Governmental Funds from other funds	$ 4,003
Due to Water Loan Programs from:	
General Fund	194
Trust Lands Fund	24
Nonmajor Governmental Funds	94
Nonmajor Enterprise Funds	30
Total due to Water Loan Programs from other funds	$ 342
Due to Nonmajor Enterprise Funds from:	
General Fund	447
Uniform School Fund	3
Transportation Fund	159
Trust Lands Fund	10
Nonmajor Governmental Funds	1,924
Internal Service Funds	8
Total due to Nonmajor Enterprise Funds from other funds	$ 2,551
Due to Internal Service Funds from:	
General Fund	7,454
Uniform School Fund	260
Transportation Fund	4,346
Nonmajor Governmental Funds	1,315
Nonmajor Enterprise Funds	194
Internal Service Funds	225
Fiduciary Funds	3
Total due to Internal Service Funds from other funds	$ 13,797
Due to Fiduciary Funds from:	
General Fund	3,065
Transportation Fund	1
Trust Lands Fund	17
Nonmajor Governmental Funds	119
Total due to Fiduciary Funds from other funds	$ 3,202
Total Due to/Due froms	$ 47,832

These balances resulted from the time lags between the dates that: 1) interfund goods and services are provided or reimbursable expenditures occur; 2) transactions are recorded in the accounting system; and 3) payments between funds are made.

Interfund Loans

Interfund loans at June 30, 2004, consisted of the following (in thousands):

Payable to General Fund from Internal Service Funds	$ 43,963
Payable to Internal Service Funds from Centennial Highway Fund	2,478
Payable to Nonmajor Enterprise Funds from Internal Service Funds	60
Total Interfund Loans Receivable/Payable	$ 46,501

The interfund loans receivable/payable balances consist of revolving loans with Internal Service Funds. The balance payable to the General Fund from Internal Service Funds of $43.963 million includes $21.927 million that is not expected to be repaid within one year.

NOTE 8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2004, was as follows (in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Land and Related Assets	$ 681,015	$ 41,167	$ (547)	$ 721,635
Infrastructure	7,128,507	161,134	(27,173)	7,262,468
Construction-In-Progress	624,032	452,821	(393,713)	683,140
Total Capital Assets not being Depreciated	8,433,554	655,122	(421,433)	8,667,243
Capital Assets being Depreciated:				
Buildings and Improvements	931,327	77,342	(1,450)	1,007,219
Infrastructure	13,133	17,763	(23)	30,873
Machinery and Equipment	427,286	45,131	(40,023)	432,394
Total Capital Assets being Depreciated	1,371,746	140,236	(41,496)	1,470,486
Less Accumulated Depreciation for:				
Buildings and Improvements	(301,564)	(26,222)	1,156	(326,630)
Infrastructure	(3,856)	(717)	—	(4,573)
Machinery and Equipment	(276,170)	(43,155)	34,548	(284,777)
Total Accumulated Depreciation	(581,590)	(70,094)	35,704	(615,980)
Total Capital Assets being Depreciated, Net	790,156	70,142	(5,792)	854,506
Capital Assets, Net	$ 9,223,710	$ 725,264	$(427,225)	$ 9,521,749
Business-type Activities:				
Capital Assets not being Depreciated:				
Land and Related Assets	$ 14,337	$ 3,241	$ (343)	$ 17,235
Construction-In-Progress	495	—	(495)	—
Total Capital Assets not being Depreciated	14,832	3,241	(838)	17,235
Capital Assets being Depreciated:				
Buildings and Improvements	40,108	4,791	(66)	44,833
Machinery and Equipment	11,139	1,198	(394)	11,943
Total Capital Assets being Depreciated	51,247	5,989	(460)	56,776
Less Accumulated Depreciation for:				
Buildings and Improvements	(6,219)	(865)	66	(7,018)
Machinery and Equipment	(8,640)	(1,023)	396	(9,267)
Total Accumulated Depreciation	(14,859)	(1,888)	462	(16,285)
Total Capital Assets being Depreciated, Net	36,388	4,101	2	40,491
Capital Assets, Net	$ 51,220	$ 7,342	$ (836)	$ 57,726

Construction-in-progress of governmental activities includes amounts for buildings the State is constructing for colleges and universities (component units) that are funded by state appropriations or state bond proceeds. As the buildings are completed, the applicable amounts are deleted from construction-in-progress of governmental activities and "transferred" to the colleges and universities. For fiscal year 2004, $133.721 million of buildings were completed for colleges and universities. On the government-wide statement of activities, the building "transfers" are reported as higher education expenses of governmental activities and as program revenues of component units.

Amounts in the beginning balances column above have been adjusted by a net decrease of $290.708 million as follows: land was increased by $9.208 million; infrastructure was decreased by $384.647 million; construction-in-progress was increased by $76.545 million; and buildings and improvements were increased by $12.988 million and the related accumulated depreciation was increased by $4.802 million. These adjustments corrected beginning balances as described in Note 2.

Depreciation expense of governmental activities was charged to functions as follows (in thousands):

General Government	$ 8,289
Human Services and Youth Corrections	4,837
Corrections, Adult	5,046
Public Safety	3,170
Courts	4,816
Health and Environmental Quality	1,956
Employment and Family Services	2,160
Natural Resources	5,690
Community and Economic Development	504
Business, Labor, and Agriculture	1,149
Public Education	985
Transportation	10,647
Depreciation on capital assets of the State's internal service funds is charged to the various functions based on their usage of services provided	20,845
Total	$ 70,094

Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands):

	Utah Housing Corporation	Public Employees Health Program	University of Utah	Utah State University	Nonmajor Component Units	Total
Capital Assets not being Depreciated:						
Land and Other Assets	$ 1,720	$ —	$ 49,196	$ 12,588	$ 61,749	$ 125,253
Construction-In-Progress	484	—	75,739	29,927	9,331	115,481
Total Capital Assets not being Depreciated	2,204	0	124,935	42,515	71,080	240,734
Capital Assets being Depreciated:						
Building and Improvements	1,302	—	1,054,870	417,417	916,784	2,390,373
Infrastructure	—	—	119,741	—	22,323	142,064
Machinery and Equipment	1,114	3,973	576,374	148,756	155,978	886,195
Total Capital Assets being Depreciated	2,416	3,973	1,750,985	566,173	1,095,085	3,418,632
Less Total Accumulated Depreciation	(1,574)	(2,953)	(850,519)	(243,773)	(396,135)	(1,494,954)
Total Capital Assets being Depreciated, Net	842	1,020	900,466	322,400	698,950	1,923,678
Discretely Presented Component Units – Capital Assets, Net	$ 3,046	$ 1,020	$ 1,025,401	$ 364,915	$ 770,030	$ 2,164,412

The State had long-term construction project commitments totaling $ 127.315 million at June 30, 2004. The following construction projects have remaining commitments and represent reservations of fund balance in the Capital Projects Funds (nonmajor governmental funds):

Capital Projects Fund
Construction Project Commitments
(Expressed in Thousands)

Project	Description	Remaining Construction Commitment
01009	U of U — Moran Eye Center Phase II	$ 38,751
02029	USU — Merrill Library	24,955
02042	U of U — Health Science Education Building	21,437
02156	State Capitol Restoration	13,539
02043	West Jordan District/Juvenile Court Facility	9,811
01020	Four Campus Classroom	2,134
03268	UVSC — Baseball Stadium	1,829
01074	New Legislative Buildings	1,379
98188	State Archives Building	1,293
97097	State Capitol Building Remodel Planning and Design	1,190
—	All Others	10,997
	Total Commitments	$ 127,315

NOTE 9. LEASE COMMITMENTS

The State leases office buildings and office and computer equipment. Although the lease terms vary, most leases are subject to annual appropriations from the State Legislature to continue the lease obligations. If an appropriation is reasonably assured, leases are considered noncancellable for financial reporting purposes.

Leases, that in substance are purchases, are reported as capital lease obligations. In the government-wide financial statements and proprietary fund financial statements, assets and liabilities resulting from capital leases are recorded at the inception of the lease at either the lower of fair value or the present value of the future minimum lease payments. The principal portion of lease payments reduces the liability, and the interest portion is expensed.

On the governmental fund financial statements, both the principal and interest portions of capital lease payments are recorded as expenditures of the applicable governmental function.

The primary government's capital lease payments were $1.442 million in principal and $1.396 million in interest for fiscal year 2004. The historical cost and accumulated depreciation of the primary government's assets acquired through capital leases were $26.257 million and $6.626 million, respectively, as of June 30, 2004.

Operating leases contain various renewal options, as well as some purchase options. However, due to the nature of the leases, they do not qualify as capital leases and the related assets and liabilities are not recorded. Any escalation clauses, sublease rentals, and contingent rents were considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses when paid or incurred.

Operating lease expenditures for fiscal year 2004 were $24.686 million for the primary government and $16.595 million for component units. For fiscal year 2003, the operating lease expenditures were $26.473 million for the primary government and $16.532 million for component units. Future minimum lease commitments for noncancellable operating leases and capital leases as of June 30, 2004, were as follows:

Future Minimum Lease Commitments
(Expressed in Thousands)

	Operating Leases			Capital Leases		
Fiscal Year	**Primary Government**	**Component Units**	**Total**	**Primary Government**	**Component Units**	**Total**
2005	$ 19,926	$ 17,779	$ 37,705	$ 2,805	$ 14,287	$ 17,092
2006	16,937	15,707	32,644	2,519	10,882	13,401
2007	12,438	13,723	26,161	2,548	8,365	10,913
2008	8,474	12,064	20,538	2,611	7,006	9,617
2009	5,676	9,965	15,641	2,186	19,277	21,463
2010–2014	9,826	50,393	60,219	8,776	25,881	34,657
2015–2019	6,101	248	6,349	6,830	409	7,239
2020–2024	2,280	212	2,492	5,349	—	5,349
2025–2029	59	116	175	235	—	235
2030–2034	—	11	11	—	—	—
Total Future Minimum Lease Payments	$ 81,717	$ 120,218	$ 201,935	33,859	86,107	119,966
Less Amounts Representing Interest				(10,957)	(15,600)	(26,557)
Present Value of Future Minimum Lease Payments				$ 22,902	$ 70,507	$ 93,409

NOTE 10. LONG-TERM LIABILITIES

A. Changes in Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2004, are presented in the following schedule. As referenced below, certain long-term liabilities are discussed in other Notes to the Financial Statements.

Long-term Liabilities
(Expressed in Thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
General Obligation Bonds	$ 1,623,680	$ 314,775	$ (428,295)	$ 1,510,160	$ 136,285
State Building Ownership Authority Lease Revenue Bonds	331,537	22,195	(17,791)	335,941	47,939
Net Unamortized Premiums/(Discounts)	107,435	35,729	(34,570)	108,594	—
Deferred Amount on Refunding	(14,038)	(15,415)	2,487	(26,966)	—
Capital Leases (Note 9)	12,846	11,498	(1,442)	22,902	2,065
Compensated Absences (Notes 1 and 18)	134,746	61,068	(56,220)	139,594	62,307
Postemployment Benefits (Note 18)	216,442	38,757	(14,661)	240,538	14,606
Claims	43,659	5,506	(8,742)	40,423	9,329
Arbitrage Liability (Note 1)	103	—	(103)	—	—
Total Governmental Long-term Liabilities	$ 2,456,410	$ 474,113	$ (559,337)	$ 2,371,186	$ 272,531
Business-type Activities					
Revenue Bonds	$ 1,313,605	$ 130,135	$ (45,220)	$ 1,398,520	$ 137,575
State Building Ownership Authority Lease Revenue Bonds	22,341	1,905	(916)	23,330	1,037
Net Unamortized Premiums/(Discounts)	265	(8)	(20)	237	—
Claims	5,668	242,361	(242,828)	5,201	5,201
Arbitrage Liability (Note 1)	52,884	9,998	(1,116)	61,766	350
Total Business-type Long-term Liabilities	$ 1,394,763	$ 384,391	$ (290,100)	$ 1,489,054	$ 144,163
Component Units					
Revenue Bonds	$ 1,653,582	$ 301,169	$ (384,691)	$ 1,570,060	$ 159,318
Net Unamortized Premiums/(Discounts)	399	371	(93)	677	27
Capital Leases/Contracts Payable (Notes 9 and 10)	77,789	11,979	(14,614)	75,154	11,741
Notes Payable	33,017	14,898	(4,916)	42,999	2,866
Claims	82,914	433,307	(413,515)	102,706	58,106
Leave/Postemployment Benefits (Notes 1 and 18)	67,868	35,005	(31,392)	71,481	18,947
Total Component Unit Long-term Liabilities	$ 1,915,569	$ 796,729	$ (849,221)	$ 1,863,077	$ 251,055

Compensated absences and postemployment benefits liabilities of governmental activities are liquidated in the General Fund, Uniform School Fund, or Transportation Fund according to the applicable employing state agency. Claims liabilities of governmental activities are liquidated in the Risk Management Internal Service Fund.

B. General Obligation Bonds

The State issues general obligation bonds to provide funds for acquisition, construction, and renovation of major capital facilities and for highway construction. In addition, general obligation bonds have been issued to refund general obligation bonds, revenue bonds, and capitalized leases. General obligation bonds are secured by the full faith and credit of the State. Debt service requirements are provided by legislative appropriation from the State's general tax revenues. As of June 30, 2004, the State had $116.0 million and $82.4 million of authorized but unissued general obligation building and highway bond authorizations remaining, respectively.

During fiscal year 2004 the State issued $314.8 million Series 2004 A general obligation refunding bonds. The proceeds were used to advance refund portions of the 2001 B, 2002 A, and 2003 A general obligation bonds.

General obligation bonds payable consist of the following:

General Obligation Bonds Payable
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2004
1997 A–E Highway/Capital Facility Issue	07/01/97	2001–2007	4.80% to 5.50%	$ 200,000	$ 34,950
1997 F Highway Issue	08/01/97	2001–2007	5.00% to 5.50%	$ 205,000	64,300
1998 A Highway/Capital Facility Issue	07/07/98	2001–2008	5.00%	$ 265,000	84,075
1999 E Capital Facility Issue	07/01/99	2004	4.50%	$ 38,000	38,000
2001 A Capital Facility Issue	01/24/01	2004	4.00%	$ 15,000	15,000
2001 B Highway/Capital Facility Issue	07/02/01	2004–2009	4.50%	$ 348,000	218,000
2002 A Highway/Capital Facility Issue	06/27/02	2003–2011	3.00% to 5.25%	$ 281,200	172,840
2002 B Refunding Issue	07/31/02	2004–2012	3.00% to 5.38%	$ 253,100	253,100
2003 A Highway/Capital Facility Issue	06/26/03	2005–2013	2.00% to 5.00%	$ 407,405	315,120
2004 A Refunding Issue	03/02/04	2010–2016	4.00% to 5.00%	$ 314,775	314,775
Total General Obligation Bonds Outstanding					1,510,160
Plus Unamortized Bond Premium					105,616
Less Deferred Amount on Refunding					(26,966)
Total General Obligation Bonds Payable					$ 1,588,810

General Obligation Bond Issues
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Fiscal Year	Principal						
	1997 A–E Highway/ Capital Facility	1997 F Highway Bonds	1998 A Highway/ Capital Facility	1999 E Capital Facility	2001 A Capital Facility	2001 B Highway/ Capital Facility	2002A Highway/ Capital Facility
2005	$ 5,175	$ 14,825	$ 14,975	$ 38,000	$ 15,000	$ 41,425	$ 4,850
2006	9,350	15,625	15,850	—	—	34,900	45,740
2007	9,925	16,475	16,775	—	—	33,250	48,075
2008	10,500	17,375	17,750	—	—	34,650	50,575
2009	—	—	18,725	—	—	36,125	5,525
2010–2014	—	—	—	—	—	37,650	18,075
2015–2019	—	—	—	—	—	—	—
Total	$ 34,950	$ 64,300	$ 84,075	$ 38,000	$ 15,000	$ 218,000	$ 172,840

Continues Below

Fiscal Year	Principal					
	2002 B Refunding Bonds	2003 A Highway/ Capital Facility	2004 A Refunding Bonds	Total Principal Required	Interest Required	Total Amount Required
2005	$ 2,035	$ —	$ —	$ 136,285	$ 67,308	$ 203,593
2006	205	1,095	—	122,765	61,257	184,022
2007	160	7,775	—	132,435	54,672	187,107
2008	120	12,825	—	143,795	47,519	191,314
2009	29,455	59,300	—	149,130	40,762	189,892
2010–2014	221,125	234,125	109,865	620,840	104,013	724,853
2015–2019	—	—	204,910	204,910	9,436	214,346
Total	$ 253,100	$ 315,120	$ 314,775	$ 1,510,160	$ 384,967	$ 1,895,127

C. **Revenue Bonds**

Revenue bonds payable consist of those issued by the Utah State Building Ownership Authority, the Utah State Board of Regents Student Loan Purchase Program, the State's Water Loan Programs, the Utah Housing Corporation, and the various colleges and universities. These bonds are not considered general obligations of the State.

Governmental Activities

The Utah State Building Ownership Authority (SBOA) has issued bonds for the purchase and construction of facilities to be leased to state agencies. The bonds are secured by the facilities, and repayment is made from lease income. The outstanding bonds payable at June 30, 2004, are reported as a long-term liability of the governmental activities, except for $22.371 million and $1.145 million which are reported in the Alcoholic Beverage Control Fund, and the Utah Correctional Industries Fund (nonmajor enterprise funds), respectively. These portions are reported as liabilities of the business-type activities on the government-wide statement of net assets.

During fiscal year 2004, the average interest rate for the SBOA Series 2001 C variable rate bonds was 0.98 percent, there is no stated minimum rate, but the maximum rate is 12 percent. The rate on the bond is reset weekly by the remarketing agent and fluctuates with the general changes in interest rates and the demand for these particular securities. In the applicable debt service requirements to maturity schedule, the interest rate used to project debt service requirements was 1.06 percent, which was the rate in effect at yearend.

Business-type Activities

The Utah State Board of Regents Student Loan Purchase Program bonds were issued to provide funds for student loans and are secured by all assets of the Board of Regents Revenue Bond Funds and by the revenues and receipts derived from such assets. The Board of Regents has also issued a revenue bond for an office facility secured by funds within the Board of Regents budget that would otherwise be expended for rent.

The Student Assistance Programs have $240.555 million of bonds bearing interest at an adjustable rate, which is determined weekly by a remarketing agent. The Programs also have adjustable rate bonds that are set by an auction procedure every 28 days in the amount of $312.1 million and $783.8 million of bonds that are auctioned every 35 days.

The State's water loan programs have issued revolving loan recapitalization program bonds to provide capital for the State's revolving loan programs, and subsequently have refunded one of the bonds. The bonds are secured by and repayment is made from the collection of the revolving loan programs' notes receivables.

Discrete Component Units

The Utah Housing Corporation bonds were issued to provide sources of capital for making housing loans to persons of low or moderate income. The bonds are secured by mortgages, and repayments are made from the mortgage payments.

The colleges and universities issue bonds for various purposes, including student housing, special events centers, and student union centers. The bonds are secured by the related assets, student building fees, and other income of certain college activities.

Revenue bonds payable consist of the following:

Revenue Bonds Payable – Component Units
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2004
Utah Housing Corporation Issues	1985–2004	2004–2046	1.5% to 10.30%	$ 2,430,667	$ 1,198,924
Colleges and Universities Revenue Bonds	1987–2004	2004–2031	variable and 1.9% to 8.49%	$ 505,450	371,136
Total Revenue Bonds Outstanding					1,570,060
Colleges and Universities Plus Unamortized Bond Premium					677
Total Revenue Bonds Payable					$ 1,570,737

Revenue Bonds Payable – Primary Government
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2004
Governmental Activities					
SBOA Lease Revenue Bonds:					
Series 1992 A	07/15/92	1993–2011	5.30% to 5.75%	$ 26,200	$ 14,405
Series 1992 B	07/15/92	1994–2011	4.00% to 6.00%	$ 1,380	785
Series 1993 A	12/01/93	1995–2013	4.50% to 5.25%	$ 6,230	3,650
Series 1994 A	09/01/94	1995–2005	5.00% to 6.25%	$ 27,465	1,730
Series 1995 A	07/01/95	1996–2007	5.00% to 5.75%	$ 92,260	11,750
Series 1996 A	07/01/96	1997–2007	5.50% to 6.00%	$ 42,895	5,495
Series 1996 B	11/01/96	1999–2013	5.00% to 5.40%	$ 16,875	11,555
Series 1998 A	07/01/98	1999–2020	3.75% to 5.25%	$ 24,885	13,405
Series 1998 B Capital Appreciation	07/22/98	2005	4.65%	$ 23,091	30,341
Series 1998 C	08/15/98	2000–2019	3.80% to 5.50%	$ 101,557	101,325
Series 1999 A	08/01/99	2001–2021	5.25% to 5.50%	$ 6,960	6,330
Series 2001 A	11/21/01	2005–2021	4.00% to 5.00%	$ 69,850	69,850
Series 2001 B	11/21/01	2002–2024	3.00% to 5.75%	$ 14,240	14,200
Series 2001 C	11/21/01	2005–2021	variable	$ 30,300	30,300
Series 2003	12/30/03	2005–2025	2.00% to 5.00%	$ 20,820	20,820
Total Lease Revenue Bonds Outstanding					335,941
Plus Unamortized Bond Premium					2,978
Total Lease Revenue Bonds Payable					$ 338,919
Business-type Activities					
Student Assistance Programs:					
Series 1988 and 1993 Board of Regents Student Loan Indentures	1988–2004	1998–2041	Variable and 4.45% to 6.0%	$1,396,295	$ 1,386,220
Office Facility Bond Fund	2002, 2004	2003–2024	3.0% to 5.13%	$ 11,780	$ 11,240
Total Revenue Bonds Outstanding					1,397,460
Plus Unamortized Bond Premium					51
Total Revenue Bonds Payable					$ 1,397,511
Water Loan Programs:					
Series 1995 Water Refunding	10/04/95	1996–2005	5.13%	$ 8,430	$ 1,060
Total Revenue Bonds Payable					$ 1,060
SBOA Lease Revenue Bonds:					
Series 1994 A	09/01/94	1995–2005	5.00% to 6.25%	$ 3,450	$ 165
Series 1995 A	07/01/95	1996–2007	5.00% to 5.70%	$ 740	110
Series 1996 A	07/01/96	1997–2007	5.50% to 6.00%	$ 1,830	240
Series 1997 A	12/01/97	1999–2018	4.60% to 5.13%	$ 4,150	3,350
Series 1998 A	07/01/98	1999–2020	3.75% to 5.25%	$ 825	675
Series 1998 C	08/15/98	2000–2019	3.80% to 5.50%	$ 3,543	3,535
Series 1999 A	08/01/99	2001–2020	5.25% to 5.50%	$ 2,495	2,195
Series 2001 B	11/21/01	2004–2023	3.25% to 5.25%	$ 11,540	11,155
Series 2003	12/30/03	2005–2025	2.00% to 5.00%	$ 1,905	1,905
Total Lease Revenue Bonds Outstanding					23,330
Plus Unamortized Bond Premium					186
Total Lease Revenue Bonds Payable					$ 23,516
Total Lease Revenue/ Revenue Bonds Payable					$ 1,422,087

Revenue Bond Issues – Primary Government
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

	Principal							
Fiscal Year	**Utah State Student Assistance Programs**	**1992 A Utah State Building Ownership Authority**	**1992 B Utah State Building Ownership Authority**	**1993 A Utah State Building Ownership Authority**	**1994 A Utah State Building Ownership Authority**	**1995 A Utah State Building Ownership Authority**	**1995 Water Refunding**	**1996 A Utah State Building Ownership Authority**
2005	$ 136,515	$ 1,460	$ 80	$ 330	$ 1,895	$ 3,760	$ 1,060	$ 1,820
2006	20,920	1,545	85	345	—	3,945	—	1,905
2007	430	1,640	90	360	—	4,155	—	2,010
2008	89,145	1,735	95	380	—	—	—	—
2009	5,355	1,835	100	400	—	—	—	—
2010–2014	109,545	6,190	335	1,835	—	—	—	—
2015–2019	3,365	—	—	—	—	—	—	—
2020–2024	2,985	—	—	—	—	—	—	—
2025–2029	180,000	—	—	—	—	—	—	—
2030–2034	179,000	—	—	—	—	—	—	—
2035–2039	460,100	—	—	—	—	—	—	—
2040–2044	210,100	—	—	—	—	—	—	—
Total	$1,397,460	$14,405	$ 785	$ 3,650	$ 1,895	$11,860	$ 1,060	$ 5,735

Continues Below

	Principal							
Fiscal Year	**1996 B Utah State Building Ownership Authority**	**1997 A Utah State Building Ownership Authority**	**1998 A Utah State Building Ownership Authority**	**1998 B Utah State Building Ownership Authority**	**1998 C Utah State Building Ownership Authority**	**1999 A Utah State Building Ownership Authority**	**2001 A Utah State Building Ownership Authority**	**2001 B Utah State Building Ownership Authority**
2005	$ 1,040	$ 170	$ 2,615	$ 30,341	$ 55	$ 330	$ 2,000	$ 865
2006	1,095	180	705	—	1,120	345	3,175	895
2007	1,150	190	735	—	1,170	365	3,125	935
2008	1,205	195	775	—	7,715	380	3,250	965
2009	1,270	205	805	—	8,130	405	3,375	1,005
2010–2014	5,795	1,200	4,640	—	46,135	2,365	19,100	5,680
2015–2019	—	1,210	3,660	—	40,535	3,065	24,325	7,030
2020–2024	—	—	145	—	—	1,270	11,500	7,980
2025–2029	—	—	—	—	—	—	—	—
2030–2034	—	—	—	—	—	—	—	—
2035–2039	—	—	—	—	—	—	—	—
2040–2044	—	—	—	—	—	—	—	—
Total	$ 11,555	$ 3,350	$ 14,080	$ 30,341	$104,860	$ 8,525	$ 69,850	$25,355

Continues Below

Revenue Bond Issues – Primary Government (continued)
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Fiscal Year	Principal: 2001 C Utah State Building Ownership Authority	Principal: 2003 Utah State Building Ownership Authority	Total Principal Required	Total Interest Required	Total Amount Required
2005	$ 2,100	$ 115	$ 186,551	$ 37,742	$ 224,293
2006	1,100	1,125	38,485	35,631	74,116
2007	1,300	1,180	18,835	33,708	52,543
2008	1,400	1,210	108,450	32,437	140,887
2009	1,500	1,240	25,625	29,840	55,465
2010–2014	8,400	6,250	217,470	127,194	344,664
2015–2019	10,000	4,715	97,905	99,179	197,084
2020–2024	4,500	5,810	34,190	81,588	115,778
2025–2029	—	1,080	181,080	70,394	251,474
2030–2034	—	—	179,000	60,250	239,250
2035–2039	—	—	460,100	35,142	495,242
2040–2044	—	—	210,100	4,881	214,981
Total	$ 30,300	$ 22,725	$1,757,791	$ 647,986	$ 2,405,777

Revenue Bond Issues – Component Units
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Fiscal Year	Principal: Utah Housing Corporation	Principal: University of Utah	Principal: Utah State University	Principal: Nonmajor Component Units	Total Principal Required	Interest Required	Total Amount Required
2005	$ 142,105	$ 9,246	$ 3,206	$ 4,761	$ 159,318	$ 70,824	$ 230,142
2006	26,681	9,791	3,329	5,013	44,814	70,792	115,606
2007	32,204	10,382	3,025	4,475	50,086	68,700	118,786
2008	34,388	7,482	3,178	4,733	49,781	66,400	116,181
2009	34,176	11,243	3,319	4,971	53,709	63,971	117,680
2010–2014	151,999	59,288	19,022	21,456	251,765	281,658	533,423
2015–2019	130,748	57,100	13,405	14,206	215,459	223,688	439,147
2020–2024	163,041	41,792	3,441	9,594	217,868	166,818	384,686
2025–2029	214,742	37,318	1,620	3,210	256,890	105,888	362,778
2030–2034	194,082	—	—	1,530	195,612	42,611	238,223
2035–2039	48,533	—	—	—	48,533	11,762	60,295
2040–2044	22,472	—	—	—	22,472	4,513	26,985
2045–2049	3,753	—	—	—	3,753	203	3,956
Total	$ 1,198,924	$ 243,642	$ 53,545	$ 73,949	$ 1,570,060	$ 1,177,828	$ 2,747,888

D. **Conduit Debt Obligations**

Of the Utah Housing Corporation (component unit) bonds outstanding, $252.459 million were issued as multi-family purchase bonds. Of those bonds, $240.184 million are conduit debt obligations issued on behalf of third parties. The Corporation is not obligated in any manner for repayment of the conduit debt. However, in accordance with the Corporation's accounting policies, the conduit debt is reported in the Corporation's financial statements.

In 1985, the State Board of Regents authorized the University of Utah (component unit) to issue Variable Rate Demand Industrial Development Bonds for the University Park Hotel, a limited partnership separate from the University. The bonds are payable solely from revenues of the University Park Hotel. The bonds do not constitute a debt or pledge of the faith and credit of the University of Utah or the State and, accordingly, have not been reported in the accompanying financial statements. At June 30, 2004, $7.1 million of Variable Rate Demand Industrial Development Bonds are outstanding.

E. **Demand Bonds**

- The Utah State Building Ownership Authority (SBOA) issued $30.3 million Series 2001 C variable rate demand lease revenue bonds. The bonds are subject to purchase upon not less than seven days notice of tender from the bondholder or in case the bonds cannot be remarketed. The remarketing agent is paid a fee of 5 basis points of the bonds outstanding on a quarterly basis.

  In the case that the bonds cannot be remarketed, the SBOA has an irrevocable direct-pay letter of credit with Landesbank Hessen-Thuringen Girozentrale (Helaba) acting through its New York Branch in the amount of $30.828 million, which is an amount sufficient to pay principal and 53 days of accrued interest at 12 percent. In consideration for the letter of credit, Helaba receives a fee of 18.5 basis points paid on a quarterly basis. The letter of credit expires on December 31, 2015, and as of June 30, 2004, the SBOA has not had to draw any funds for bondholder tenders or a failed remarketing.

  The letter of credit also has a takeout provision for bonds that allows the SBOA to pay the bonds that Helaba holds (bank bonds) over a five-year period in approximately equal payments. The rate in effect for bank bonds for the first 90 days is the base rate, which is the higher of the Federal Funds rate plus 50 basis points or the Prime Rate, up to a maximum of 12 percent per annum. The interest rate for bank bonds held longer than 90 days is the base rate plus 2 percent. If the takeout provision were in effect and assuming all the bonds were not remarketed, the SBOA would pay debt service of $8.406 million a year for five years, based on the maximum rate.

- The Student Loan Purchase Program had $240.555 million of demand bonds outstanding at June 30, 2004, subject to purchase on the demand of the holder at a price equal to principal plus accrued interest, on seven days notice and delivery to the Board's remarketing agent.

  In the event bonds cannot be remarketed, the Board has standby bond purchase agreements and a letter of credit agreement sufficient to pay the purchase price of bonds delivered to it. The Board pays quarterly fees to maintain the standby bond purchase agreements and letter of credit on the demand bonds.

  An unused irrevocable direct-pay letter of credit expiring November 15, 2004, in the amount of $37.462 million supports the Series 1993 A bonds of $35 million. Standby bond purchase agreements of $110.677 million expiring November 15, 2005 support the Series 1988 C and 1995 L bonds of $104.5 million, and $108.42 million expiring May 16, 2005, support the Series 1996 Q and 1997 R bonds of $101.055 million. As of June 30, 2004, the Board had not drawn any funds under the standby bond purchase agreements or the letter of credit.

- The Utah Housing Corporation (component unit) had $494.835 million of bonds outstanding at June 30, 2004, subject to purchase on the demand of the holder at a price equal to principal plus accrued interest, on delivery to the remarketing agent.

  In the case that the variable rate bonds cannot be remarketed, the Corporation has entered into various irrevocable Standby Bond Purchase Agreements (Liquidity Facility) with three different banks totaling $550 million. These Agreements provide that these institutions will provide funds to purchase the variable rate bonds that have been tendered and not remarketed. These liquidity providers receive a fee ranging from 12.5 to 19 basis points of the outstanding amount of the variable rate bonds paid on a quarterly basis. The Corporation has not drawn on any of the facilities to date.

- The University of Utah (component unit) Series 1997 A bonds in the amount of $16.39 million currently bear interest at a weekly rate in accordance with bond provisions. When a weekly rate is in effect, the Series 1997 A bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the University's tender agent. The interest requirement for the Series 1997 A Bonds is calculated using an interest rate of 1.08 percent, which is the rate in effect of June 30, 2004.

  In the event the bonds cannot be remarketed, the tender agent is required to draw on an irrevocable letter of credit to pay the purchase price plus accrued interest on the bonds delivered to it. The letter of credit with the Bank of Nova Scotia is valid through July 30, 2005. As of June 30, 2004, the University had not drawn any funds under the letter of credit.

F. **Capital Appreciation Bonds**

On August 15, 1998, the Utah State Building Ownership Authority issued $23.091 million of 1998 Series B Capital Appreciation lease revenue bonds. The interest on the bonds is accreted and added to the bonds payable. The accretion for the year ended June 30, 2004, was $1.363 million, and at June 30, 2004, the total capital appreciation bonds payable including accreted interest was $30.341 million.

G. **Defeased Bonds and Bond Refunding**

The State issued on March 2, 2004, $314.775 million General Obligation Refunding Bonds Series 2004 A to advance refund $130 million, $94.2 million, and $92.285 million of Series 2001 B, 2002 A, and 2003 A General Obligation Bonds, respectively. The principal amount of the refunding bonds and $34.47 million of original issue premium were paid to an escrow agent to be placed in an irrevocable trust account to provide for the debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Statement of Net assets.

The advance refunding transaction resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $15.415 million. This difference, reported in the Statement of Net Assets as a deduction from bonds payable, is being charged to operations through fiscal year 2016, using the bonds outstanding method, which approximates the effective interest method. The refunding reduced the State's aggregate debt service payments by $8.084 million over 12 years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $3.517 million.

On December 30, 2003, the Utah State Building Ownership Authority issued $22.725 million of Lease Revenue and Refunding Bonds Series 2003. To reduce total debt service, $4.455 million of the proceeds, together with $124 thousand of original issue premium and $657 thousand of other monies, were used to pay $380 thousand of principal due and refund the remaining $5.05 million of the Authority's Series 1993 B Lease Revenue bonds. There was no difference between the reacquisition price and the net carrying amount of the old debt. The current refunding reduced the State's total debt service payments by $1.17 million over 10 years and resulted in an economic gain of $94 thousand.

Pursuant to the Supplemental Indenture dated August 1, 2003 and the General Indenture dated July 15, 1988, the Student Loan Purchase Program issued the Series 2003 V student loan revenue bonds at par to pay or redeem a total of $43.365 million of Series 1993 B, C and D bearing interest from 5.35 percent to 6.10 percent and maturing on November 1, 2003 to November 1, 2018, all of the bonds were paid or redeemed on November 1, 2003. Because the variable rate refunding issue has no stated minimum or maximum interest rate, no attempt has been made to disclose cash flow savings or economic gain. Due to the risk that variable interest may rise, there is no guarantee that the Student Loan Purchase Program will achieve an economic gain on this transaction.

In prior years, the State defeased certain general obligation and revenue bonds by placing the proceeds of new bonds and other monies available for debt service in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Statement of Net Assets. At June 30, 2004, the total amount outstanding of defeased general obligation bonds, including the bonds advanced refunded in fiscal year 2004, was $576.41 million. At June 30, 2004, the total amount outstanding of defeased revenue bonds was $105.615 million.

In prior years, component units defeased certain revenue bonds by placing the proceeds of new bonds and various bond reserves in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the component unit column on the Statement of Net Assets. At June 30, 2004, $38.514 million of college and university bonds outstanding are considered defeased.

H. **Contracts Payable**

Component unit capital leases/contracts payable include $4.647 million in life annuity contracts.

I. **Notes Payable**

The notes payable balance consists of notes issued by component units for the purchase of buildings and equipment. The notes bear various interest rates and will be repaid over the next 30 years. They are secured by the related assets.

Notes Payable Debt Service Requirements to Maturity
Component Units
For Fiscal Years Ending June 30
(Expressed in Thousands)

Fiscal Year	Principal: Utah Housing Corporation	University of Utah	Utah State University	Nonmajor Component Units	Total Principal Required	Interest Required	Total Amount Required
2005	$ 18	$ 478	$ 1,160	$ 1,210	$ 2,866	$ 2,003	$ 4,869
2006	20	419	1,238	672	2,349	1,971	4,320
2007	22	357	1,234	5,048	6,661	1,865	8,526
2008	24	387	1,281	433	2,125	1,603	3,728
2009	27	421	1,307	418	2,173	1,500	3,673
2010–2014	182	2,721	5,320	2,232	10,455	5,883	16,338
2015–2019	53	4,127	4,150	1,080	9,410	3,184	12,594
2020–2024	—	1,316	4,763	524	6,603	727	7,330
2025–2029	—	—	88	269	357	27	384
Total	$ 346	$ 10,226	$ 20,541	$ 11,886	$ 42,999	$ 18,763	$ 61,762

J. **Debt Service Requirements for Derivatives**

Swap Payments and Associated Debt — As explained in Note 3.D., Utah Housing Corporation (major component unit) had entered into pay-fixed, receive-variable interest rate swaps as of June 30, 2004. Using rates as of June 30, 2004, debt service requirements of the Corporation's outstanding variable-rate debt and net swap payments are summarized below (in thousands). As rates vary, variable-rate bond interest payments and net swap payments will vary. The principal, interest and net swap interest are included in the Component Unit debt service schedule presented on page 88 for Utah Housing Corporation.

Utah Housing Corporation
Swap Payments and Associated Debt
For Fiscal Years Ending June 30
(Expressed in Thousands)

Fiscal Year	Variable Rate Bonds Principal	Variable Rate Bonds Interest	Interest Rate Swaps, Net	Total
2005	$ 15,460	$ 4,663	$ 14,750	$ 34,873
2006	6,670	4,488	15,300	26,458
2007	6,320	4,411	15,042	25,773
2008	5,985	4,340	14,804	25,129
2009	5,665	4,271	14,579	24,515
2010–2014	21,545	20,482	69,965	111,992
2015–2019	31,175	19,218	65,273	115,666
2020–2024	63,150	16,801	56,367	136,318
2025–2029	112,605	12,273	40,059	164,937
2030–2034	139,615	4,862	14,152	158,629
2035–2039	8,280	109	191	8,580
Total	$ 416,470	$ 95,918	$ 320,482	$ 832,870

NOTE 11. GOVERNMENTAL FUND BALANCES — RESERVED AND DESIGNATED

The State's reserved fund balances represent: 1) **Nonlapsing Appropriations** which include continuing appropriations or nonlapsing funds, encumbrances for construction contracts in the capital projects funds, and limited encumbrances in the general and special revenue funds; or 2) **Restricted Purposes** which include fund balances that are legally restricted for other purposes, assets restricted by bond agreements or other external restrictions, and those portions of fund balance that are not available for appropriation or expenditure, such as loans to internal service funds. A summary of the nature and purpose of these reserves by fund type at June 30, 2004, follows:

Reserved Fund Balances
(Expressed in Thousands)

	Nonlapsing Appropriations	Restricted Purposes	Total Reserved
General Fund:			
Legislature	$ 2,866	$ —	$ 2,866
Governor	5,785	505	6,290
Elected Officials	2,556	1	2,557
Administrative Services	6,294	18	6,312
Tax Commission	9,213	11,333	20,546
Human Services	8,627	5,546	14,173
Corrections	2,064	45	2,109
Public Safety	3,041	6,317	9,358
Courts	885	3,581	4,466
Health	3,748	548	4,296
Environmental Quality	1,478	3,743	5,221
Employment and Family Services	—	11,256	11,256
Natural Resources	12,190	20,112	32,302
Community and Economic Development	3,895	604	4,499
Business, Labor, and Agriculture	8,284	5,375	13,659
Industrial Assistance Account	—	26,494	26,494
Loans to Internal Service Funds	—	21,927	21,927
Tobacco Settlement Funds	—	5,247	5,247
Oil Overcharge Funds	—	7,067	7,067
Mineral Bonus Account	—	7,561	7,561
Other Purposes	1,413	4,444	5,857
Total	$ 72,339	$ 141,724	$ 214,063
Uniform School Fund:			
Minimum School Program	$ 19,576	$ —	$ 19,576
State Office of Education	9,396	—	9,396
School Building Program	—	8,446	8,446
School Land Interest	—	9,787	9,787
Total	$ 28,972	$ 18,233	$ 47,205
Transportation Fund:			
Transportation	$ 3,108	$ —	$ 3,108
Public Safety	—	7,755	7,755
Corridor Preservation	—	12,024	12,024
Aeronautical Programs	—	4,622	4,622
Salt Lake County Road Construction	—	7,439	7,439
Salt Lake County Bond Proceeds	—	44,910	44,910
Total	$ 3,108	$ 76,750	$ 79,858
Centennial Highway Fund:			
Bond Proceeds	$ —	$ 29,046	$ 29,046
Trust Lands Fund:			
Funds Held as Permanent Investments	$ —	$ 492,139	$ 492,139
Nonmajor Governmental Funds:			
Capital Projects	$ 127,315	$ 10,189	$ 137,504
Debt Service	—	7,055	7,055
Tobacco Settlement Funds	—	17,759	17,759
Environmental Reclamation	—	17,291	17,291
Other Purposes	—	5,377	5,377
Total	$ 127,315	$ 57,671	$ 184,986

Designated Fund Balances
(Expressed in Thousands)

	General Fund	Uniform School Fund	Transportation Fund	Centennial Highway Fund	Nonmajor Governmental Funds	Total Governmental Funds
Designated for:						
Budget Reserve (Rainy Day) Account	$ 53,585	$ —	$ —	$ —	$ —	$ 53,585
Education Budget Reserve Account	—	13,273	—	—	—	13,273
Postemployment and Other Liabilities	142,863	161,202	43,502	537	—	348,104
Fiscal Year 2005 Appropriations:						
Line Item Appropriations	53,015	54,205	—	—	—	107,220
Industrial Assistance Account	4,443	—	—	—	—	4,443
Debt Service Requirements	1,625	—	—	—	—	1,625
Capital Projects	—	—	—	—	3	3
Debt Service	—	—	—	—	5,787	5,787
Total	$ 255,531	$ 228,680	$ 43,502	$ 537	$ 5,790	$ 534,040

NOTE 12. DEFICIT NET ASSETS AND FUND BALANCE

Funds reporting a deficit total net assets position at June 30, 2004, are (in thousands):

Private Purpose Trust Funds:	
Employers' Reinsurance	$ (223,426)
Petroleum Storage Tank	$ (55,311)

The deficit in the Employers' Reinsurance Trust represents the unfunded portion of the actuarial estimate of claims incurred. The Employers' Reinsurance Trust claims are funded from assessments on workers' compensation insurance. The Utah Labor Commission sets the rate up to the maximum established by the Legislature to keep current revenues at a level sufficient to cover current cash disbursements. State law limits the State's liability to the cash or assets in the Employers' Reinsurance Trust only. State law also limits the Trust's liability to claims resulting from industrial accidents or occupational diseases occurring on or before June 30, 1994. For claims resulting from accidents or diseases on or after July 1, 1994, the employer or its insurance carrier is liable for resulting liabilities.

The Petroleum Storage Tank Trust covers the clean-up costs of leaks from state-approved underground petroleum storage tanks. The assets in the fund are more than adequate to pay current claims. Unfunded future claims will be funded by future revenues.

Funds/activities reporting a deficit position in the unrestricted portion of their net assets at June 30, 2004, are (in thousands):

Internal Service Funds:	
General Services	$ (1,644)
Fleet Operations	$ (29,189)

The Internal Service Funds deficits are mainly due to the significant investment in capital assets required for these operations. The deficits will be covered by future charges for services. Management may also seek rate increases to help reduce these deficits.

In addition, the Capital Projects – General Government Fund (nonmajor governmental fund) reported a $15.383 million deficit unreserved undesignated fund balance as a result of outstanding encumbrances on various capital projects. Appropriations and bond proceeds available in the next fiscal year will fund this deficit.

NOTE 13. INTERFUND TRANSFERS

Transfers between funds occur when one fund collects revenue and transfers the assets to another fund for expenditure or when one fund provides working capital to another fund. All transfers must be legally authorized by the Legislature through statute or an *Appropriation Act.* Interfund transfers for the fiscal year ended June 30, 2004, are as follows (in thousands):

Transfers In:

	Governmental Funds					
Transfers Out:	**General Fund**	**Uniform School Fund**	**Trans-portation Fund**	**Centennial Highway Fund**	**Trust Lands Fund**	**Nonmajor Governmental Funds**
General Fund	$ —	$ 2,110	$ 28,127	$ 59,595	$ 14	$ 85,825
Uniform School Fund	88,561	—	—	—	—	34,164
Transportation Fund	31,633	—	—	74,048	—	2,221
Centennial Highway Fund	—	—	—	—	—	100,718
Trust Lands Fund	—	—	—	—	—	4,428
Nonmajor Governmental Funds	9,546	—	—	—	—	2,616
Unemployment Compensation	2,323	—	—	—	—	—
Water Loan Programs	2,869	—	—	—	—	—
Nonmajor Enterprise Funds	39,686	—	—	—	—	—
Internal Service Funds	4,282	—	—	—	—	—
Total Transfers In	$ 178,900	$ 2,110	$ 28,127	$ 133,643	$ 14	$ 229,972

Continues Below

	Enterprise Funds			
Transfers Out:	**Water Loan Programs**	**Nonmajor Enterprise Funds**	**Internal Service Funds**	**Total Transfers Out**
General Fund	$ 1,582	$ 29,888	$ 378	$ 207,519
Uniform School Fund	—	—	—	122,725
Transportation Fund	—	—	—	107,902
Centennial Highway Fund	—	—	—	100,718
Trust Lands Fund	—	—	—	4,428
Nonmajor Governmental Funds	—	—	14	12,176
Unemployment Compensation	—	—	—	2,323
Water Loan Programs	—	—	—	2,869
Nonmajor Enterprise Funds	—	—	—	39,686
Internal Service Funds	—	—	—	4,282
Total Transfers In	$ 1,582	$ 29,888	$ 392	$ 604,628

Transfers from major governmental funds to nonmajor governmental funds are primarily for capital facility construction and debt service expenditures. Transfers from the General Fund to nonmajor enterprise funds are primarily mineral lease royalties used to make loans and grants to local governments through the Community Impact Loan Fund. Transfers from nonmajor enterprise funds to the General Fund are mostly liquor profits from the Alcoholic Beverage Control Fund that are required by statute to be deposited in the General Fund. All other transfers are made to finance various programs as authorized by the Legislature.

During fiscal year 2004, the legislature authorized transfers of $4.282 million from the Internal Service Funds to the General Fund to subsidize general fund revenues. In addition, the Legislature authorized payments of $613.362 million to the Colleges and Universities. Payments to Colleges and Universities are reported as expenditures in both the General Fund fund statements and the Governmental Activities column of the Statement of Activities. They are also reported as revenues in the Component Units column of the Statement of Activities.

NOTE 14. LITIGATION, CONTINGENCIES, AND COMMITMENTS

A. Litigation

The State is involved in various legal actions arising in the ordinary course of business. The State is vigorously contesting all of these matters, but as of this date it is not possible to determine the outcome of these proceedings. In the opinion of the Attorney General and management, the ultimate disposition of these matters will not have a material adverse effect on the State's financial position.

- Members of the Navajo Nation allege the State of Utah has mismanaged Navajo Nation Trust Fund monies. The plaintiffs are seeking an accounting of the legitimacy of the fund's receipts and disbursements, and damages of $142 million including interest and attorneys' fees.

- There are currently two separate suits pending seeking refunds of taxes paid. Damages in these two cases have not yet been specified. In the event of adverse rulings in these cases, the State estimates the damages sought could be over $20 million.

- A suit was filed by a landowner alleging breach of contract by the Utah State Armory Board and the Utah National Guard related to the sale of property. The plaintiff seeks damages of approximately $19 million plus attorneys' fees.

- In addition to the items above, the State is contesting other legal actions totaling approximately $25 million plus attorneys' fees and interest in some cases.

B. Contingencies

- Financial and compliance audits (Single Audit) of federal grants, contracts, and agreements were conducted under the provisions of the Federal Office of Management and Budget's circulars. As a result of the audits, identified questioned costs are immaterial. Other audit findings on noncompliance cannot be estimated as to the potential liability. The Single Audit for the fiscal year ended June 30, 2004, is in process and management expects proposed disallowances to be immaterial.

- Management's estimated liability for the Petroleum Storage Tank Trust (private purpose trust fund) is highly sensitive to change based on the short period of historical data and the uncertainties in estimating costs. Since it is not possible to determine the occurrence date of a leak in an underground storage tank, it is not possible to estimate the number or the associated costs of leaks that have not been detected.

- The Utah Department of Transportation (UDOT) plans on seeking reimbursement from the Federal Highway Administration (FHWA) for approximately $20 million per year for fiscal years 2004 through 2007. The State received $20 million in fiscal year 2004. The related costs were incurred by the State as a result of the I-15 reconstruction project and were originally paid using state funds. UDOT has not recorded an accounts receivable for these future reimbursement requests because the requests are contingent upon sufficient future federal funds and federal obligation authority becoming available and future approval by the FHWA.

- In 2001, the State began construction of the Legacy Highway. As a result of litigation, the construction of the highway was stopped for a supplemental environmental impact study, which is currently being conducted. At June 30, 2004, $228.161 million was reported as construction-in-progress for the Legacy Highway.

- The State is totally self-insured against liability claims and up to $2.5 million in property claims. According to an actuarial study and other known factors, $40.423 million exists as either incurred but unfiled or unpaid claims. This amount is reported as a liability of the Administrative Services Risk Management Fund (internal service fund).

- The Utah School Bond Guaranty Act (*Utah Code Annotated, 1953,* as amended, Sections 53A–28–101 to 402), which took effect on January 1, 1997, pledges the full faith, credit, and unlimited taxing power of the State to guaranty full and timely payment of the principal and interest on general obligation bonds issued by qualifying local school boards. The primary purpose of the Guaranty Act is to reduce borrowing costs for local school boards by providing credit enhancement for Guarantied Bonds.

  In the event a school board is unable to make the scheduled debt service payments on its Guarantied Bonds, the State is required to make such payments in a timely manner. For this purpose, the State may use any available monies, may use short-term borrowing from the State Permanent School Fund (part of the permanent Trust Lands Fund), or may issue short-term general obligation notes. The local school board remains liable to the State for any such payments on Guarantied Bonds. Reimbursements to the State may be obtained by intercepting payment of state funds intended for the local school board. The State may also compel the local school board to levy a tax sufficient to reimburse the State for any guaranty payments.

  The State Superintendent of Public Instruction is charged with monitoring the financial condition of local school boards and reporting, at least annually, its conclusions to the Governor, the Legislature, and the State Treasurer. The State Superintendent must report immediately any circumstances which suggest a local school board may not be able to pay its debt service obligations when due. The State does not expect that it will be required to advance monies for the payment of debt service on Guarantied Bonds for any significant period of time.

  Local school boards have $1.477 billion principal amount of Guarantied Bonds outstanding at June 30, 2004. The State cannot predict the amount of bonds that may be guarantied in future years, but no limitation is currently imposed by the Guaranty Act.

- The Attorney General of the State sued the tobacco industry for medical costs related to smoking. The State of Utah has signed on to a master settlement agreement along with 45 other states. The major tobacco manufacturers and most smaller manufacturers have joined the agreement. The State received $27.936 million from tobacco companies in fiscal year 2004 and expects to receive approximately $26.951 million in fiscal year 2005. Annual payments are expected to continue for the next six years but will be adjusted for factors such as inflation, decreased sales volume, previously settled law suits, disputed payments, and legal fees.

- In April of 2004, GASB issued Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* Additionally, in June of 2004, GASB issued Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* GASB Statements 43 and 45, which are effective for the State's fiscal years ending June 30, 2007 and 2008, respectively, will require a change in the method of reporting obligations for postemployment benefits in the financial statements. The effect on net assets of this impending change in accounting principle cannot be determined at this time.

C. **Commitments**

- At June 30, 2004, the Industrial Assistance Program of the General Fund had grant commitments of $18.093 million, contingent on participating companies meeting certain performance criteria.

- Utah Retirement Systems (pension trust funds) has at its yearend December 31, 2003, committed to fund certain alternative investment partnerships and real estate projects for an amount of $2.763 billion. Funding of $2.081 billion has been provided, leaving an unfunded commitment of $682 million as of December 31, 2003, which will be funded over the next six years.

- As of June 30, 2004, the Utah Housing Corporation (component unit) has committed to purchase mortgages under the Single-Family Mortgage Purchase Program in the amount of $39.053 million. In addition, the Corporation entered into a contract for construction of an office building. As of June 30, 2004, there was approximately $4.587 million outstanding on the contract. Associated with this construction project the Corporation issued $4.545 million of General Revenue Office Building Bonds during the year. As of June 30, 2004, $4.495 million was still available for construction of the building.

- At June 30, 2004, the enterprise funds had loan commitments of approximately $139.145 million and grant commitments of approximately $23.586 million.

- At June 30, 2004, the Utah Higher Education Assistance Authority Student Loan Guarantee Program (Student Assistance Programs, enterprise fund) had guaranteed student loans outstanding with an original principal amount of approximately $1.861 billion. Also, at June 30, 2004, the Student Assistance Programs had commitments to purchase approximately $402 million in student loans and provide approximately $11.839 million in reductions to borrower loan balances.

- At June 30, 2004, the Department of Transportation had construction and other contract commitments of $442.714 million, of which $250.564 million is for Centennial Highway Fund (special revenue fund) projects and $192.15 million is for Transportation Fund (special revenue fund) projects. These commitments will be funded with bonded debt and future appropriations.

NOTE 15. JOINT VENTURE

The Utah Communications Agency Network (UCAN) was created by the State Legislature in 1997 as an independent agency. Its purpose is to provide public safety communications services and facilities on a regional or statewide basis.

UCAN's governing board consists of ten representatives elected by the board, and five state representatives of which four are appointed by the Governor. The State has contracted to purchase communication services from UCAN to meet the needs of law enforcement officers in the Departments of Public Safety, Corrections, Natural Resources, and other smaller state agencies.

In fiscal year 1998 the State provided startup capital of $185 thousand. UCAN receives federal funds as a subrecipient of grants awarded to the Department of Public Safety. UCAN also may receive legal counsel from the Attorney General's Office at no cost. Contracts with state agencies are estimated to provide over 30 percent of UCAN's operating revenues.

UCAN had $11.88 million of revenue bonds outstanding at June 30, 2004. UCAN's debt is not a legal obligation of the State; however, if UCAN cannot meet its debt service requirements, state law allows the Governor to request an appropriation to restore the debt service reserve fund to its required level or to meet any principal or interest payment deficiency. The Legislature is not required to make any such appropriation, but if made, UCAN must repay the State within 18 months. To date, UCAN has never requested any such funding from the State and has had sufficient resources to cover its debt service and debt service reserve requirements.

The State Auditor's Office audits UCAN's financial statements. Copies of those statements can be obtained from UCAN's administrative office or from the State Auditor's Office.

NOTE 16. PENSION PLANS

Eligible employees of the State are covered by one of the following retirement plans:

A. **Utah Retirement Systems**

Utah Retirement Systems (URS) was established by Section 49 of *Utah Code Annotated, 1953,* as amended. URS administers the pension systems and plans under the direction of the URS Board, which consists of the State Treasurer and six members appointed by the Governor. URS has a separate accounting system and prepares a separately issued financial report covering all retirement systems and deferred compensation plans it administers. URS maintains records and prepares separately issued financial statements using fund accounting principles and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Revenues, including contributions, are recorded in the accounting period in which they are earned and become measurable. URS reports on a calendar yearend. The December 31, 2003, financial report has been included in this Comprehensive Annual Financial Report as a pension trust fund for the Public Employees Retirement System (PERS) within the fiduciary funds. Copies of the separately issued financial report that include financial statements and required supplemental information may be obtained by writing to Utah Retirement Systems, 560 East 200 South, Salt Lake City, Utah 84102, or by calling 1-800-365-8772.

The URS operations are comprised of the following groups of systems and plans covering substantially all employees of the State, public education, and other political subdivisions of the State:

- The Public Employees Contributory Retirement System (Contributory System); the Public Employees Noncontributory Retirement System (Noncontributory System); and the Firefighters Retirement System, which are defined-benefit multiple-employer, cost-sharing, public employee retirement systems;
- The Public Safety Retirement System, which is a defined-benefit mixed cost-sharing and agent, multiple-employer retirement system;
- The Judges Retirement System and the Governors and Legislative Pension Plan, which are defined-benefit single-employer public employee retirement systems; and
- The 401(k) and 457 Plans, which are deferred compensation plans.

Retirement benefits are specified by Section 49 of *Utah Code Annotated, 1953*, as amended. The retirement systems are defined-benefit plans in which the benefits are based on age and/or years of service and highest average salary. Various plan options within the systems may be selected by retiring members. Some of the options require actuarial reductions based on attained age, age of spouse, and similar actuarial factors. A brief summary of eligibility for and benefits of the systems is provided in the following table:

Summary of Eligibility and Benefits

	Contributory System	Noncontributory System	Public Safety System	Firefighters System	Judges System
Highest Average Salary	Highest 5 Years	Highest 3 Years	Highest 3 Years		Highest 2 Years
Years of Service Required and/or Age Eligible for Benefit	30 years any age *20 years age 60 *10 years age 62 4 years age 65	30 years any age *25 years any age *20 years age 60 *10 years age 62 4 years age 65	20 years any age 10 years age 60 4 years age 65		25 years any age *20 years age 55 10 years age 62 6 years age 70
Benefit Percent per Year of Service	1.25% to June 1975 2.00% July 1975 to present	2.00% per year	2.50% per year up to 20 years 2.00% per year over 20 years Benefit cannot exceed 70% of final average salary		5.00% first 10 years 2.25% second 10 years 1.00% over 20 years Benefit cannot exceed 75% of final average salary

*With actuarial reductions

Former governors at age 65 receive $1,100 per month per term. Legislators receive a benefit actuarially reduced at age 62 with ten or more years of service, or an unreduced benefit at age 65 with four or more years of service at the rate of $24.40 per month per year of service. Both the governors' and legislators' benefits are adjusted based on the Consumer Price Index (CPI), limited to 4 percent of the base benefit per year.

Death benefits for active and retired employees are in accordance with retirement statutes. Upon termination of employment, members of the systems may leave their retirement account intact for future benefits based on vesting qualification, or withdraw the accumulated funds in their individual member account and forfeit service credits and rights to future benefits upon which the contributions were based.

As a condition of participation in the systems, employers and/or employees are required to contribute certain percentages of salaries and wages as authorized by statute and specified by the Board. Employee contributions may be paid in part or in whole by the employer. Contributions in some systems are also augmented by fees or insurance premium taxes. Below is a summary of system participants.

Participants
December 31, 2003

	Contributory System	Non-contributory System	Public Safety System	Fire-fighters System	Judges System	Governors and Legislative Pension Plan
Number of participating:						
Employers	161	380	117	43	1	1
Members:						
Active	3,493	83,156	7,041	1,568	106	97
Terminated vested	1,492	22,290	1,067	65	5	91
Retirees and beneficiaries:						
Service benefits	6,808	22,215	2,836	853	83	223
Disability benefits	134	—	42	68	—	—

Employer contribution rates consist of *(1)* an amount for normal cost (the estimated amount necessary to finance benefits earned by the members during the current year) and *(2)* an amount for amortization of the unfunded, or excess funded actuarial accrued liability over an open 20 year amortization period. These rates are determined using the entry age actuarial cost method with a supplemental present value and the same actuarial assumptions used to calculate the actuarial accrued liability.

The following table presents the State of Utah's actuarially determined employer contributions required and paid to URS. These amounts are equal to the annual pension costs for each of the stated years and all of these amounts were paid for each year. Accordingly, the net pension obligation (NPO) at the end of each year was zero. For the Governors and Legislative Pension Plan, there has been no annual pension cost, required contributions, or NPO because the plan was overfunded for each of these years.

State of Utah's Employer Contributions
Required and Paid
For Fiscal Years Ended June 30
(Expressed in Thousands)

	Contributory System	Non-contributory System	Public Safety System	Fire-fighters System	Judges System	Total All Systems
Primary Government:						
2004	$ 3,894	$ 67,745	$ 19,165	$ 50	$ 782	$ 91,636
2003	$ 3,683	$ 60,033	$ 16,713	$ 47	$ 539	$ 81,015
2002	$ 5,777	$ 93,037	$ 25,921	$ 58	$ 928	$ 125,721
2001	$ 4,902	$ 78,752	$ 19,772	$ 56	$ 1,615	$ 105,097
2000	$ 4,943	$ 75,769	$ 19,717	$ 70	$ 1,572	$ 102,071
Component Units:						
Colleges and Universities:						
2004	$ 1,996	$ 30,434	$ 411	$ —	$ —	$ 32,841
2003	$ 1,840	$ 29,409	$ 375	$ —	$ —	$ 31,624
2002	$ 1,904	$ 28,028	$ 399	$ —	$ —	$ 30,331
2001	$ 2,398	$ 33,575	$ 442	$ —	$ —	$ 36,415
2000	$ 2,469	$ 32,839	$ 445	$ —	$ —	$ 35,753
Other:						
2004	$ 52	$ 1,913	$ —	$ —	$ —	$ 1,965
2003	$ 44	$ 1,609	$ —	$ —	$ —	$ 1,653
2002	$ 43	$ 258	$ —	$ —	$ —	$ 301
2001	$ 50	$ 352	$ —	$ —	$ —	$ 402
2000	$ 143	$ 2,416	$ —	$ —	$ —	$ 2,559
Total Primary Government and Component Units:						
2004	$ 5,942	$ 100,092	$ 19,576	$ 50	$ 782	$ 126,442
2003	$ 5,567	$ 91,051	$ 17,088	$ 47	$ 539	$ 114,292
2002	$ 7,724	$ 121,323	$ 26,320	$ 58	$ 928	$ 156,353
2001	$ 7,350	$ 112,679	$ 20,214	$ 56	$ 1,615	$ 141,914
2000	$ 7,555	$ 111,024	$ 20,162	$ 70	$ 1,572	$ 140,383

The following schedule summarizes contribution rates in effect at December 31, 2003:

Contribution Rates as a Percent of Covered Payroll

System	Member	Employer	Other
Contributory	6.00%	5.61% – 7.21%	—
Noncontributory	—	9.62% – 11.70%	—
Public Safety:			
Contributory	10.50% – 13.74%	4.52% – 17.61%	—
Noncontributory	—	16.24% – 30.05%	—
Firefighters:			
Group A	7.82%	—	10.35%
Group B	8.21%	—	10.35%
Judges	7.08%	7.08%	18.06%
Governors and Legislative	—	—	—

401(k) and 457 Deferred Compensation Plans

The 401(k) Plan and 457 Plan administered by URS, in which the State participates, are deferred compensation plans. These plans are available as supplemental plans to the basic retirement benefits of the retirement systems for employees of employers that have adopted the 401(k) and 457 Plans. Voluntary contributions may be made into the plans subject to plan and Internal Revenue Code limitations. Employer contributions may be made into the plans at rates determined by the employers. There are 357 employers participating in the 401(k) Plan and 153 employers participating in the 457 Plan. There are 121,070 plan participants in the 401(k) Plan and 11,272 participants in the 457 Plan.

After termination of employment, benefits are paid out to individuals in lump sum, or as periodic benefit payments, at the option of the participant based on individual account balances and plan provisions. The 401(k) and 457 Plans account balances are fully vested to the participants at the time of deposit. Investments of the plans are reported at fair value.

Employees of the State are eligible to participate in the deferred compensation 401(k) Plan. The State and participating employers are required to contribute to employees who participate in the noncontributory retirement plan. The State contributes 1.5 percent of eligible employees' salaries which amount vests immediately. The amounts contributed to the 401(k) Plan during the year ended June 30, 2004, by employees and employers are as follows: for Primary Government, $30.859 million and $10.190 million; for Component Units – Colleges and Universities, $3.399 million and $4.062 million; for Component Units – Other, $844 thousand and $517 thousand; and the combined total for all is $35.102 million and $14.769 million, respectively.

Pension Receivables and Investments

Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Many factors are considered in arriving at that value. Corporate debt securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on an amortized cost basis, which approximates market or fair value. The fair value of real estate investments has been estimated based on independent appraisals. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, have determined the fair value for the individual investments. Approximately 11 percent of the net assets held in trust for the pension benefits are invested in debt securities of the U.S. Government and its instrumentalities. Of the 11 percent, approximately 3 percent are U.S. Government debt securities and 8 percent are debt securities of the U.S. Government instrumentalities. The systems and plans have no investments of any commercial or industrial organization whose market value equals 5 percent or more of the net assets available for benefits. The principal components of the receivables and investment categories are presented below.

Pension Receivables and Investments
(Expressed in Thousands)

	Contributory System	Non-contributory System	Public Safety System	Fire-fighters System	Judges System	Governors and Legislative Pension Plan	401(k) Plan	457 Plan	Total December 31, 2003
Receivables:									
Member Contributions	$ 414	$ —	$ 159	$ 205	$ —	$ —	$ —	$ —	$ 778
Employer Contributions	452	20,328	1,831	—	144	—	—	—	22,755
Court Fees and Fire Insurance Premium	—	—	—	—	30	—	—	—	30
Investments	25,451	322,375	40,144	16,318	2,700	297	31,142	534	438,961
Total Receivables	$ 26,317	$ 342,703	$ 42,134	$ 16,523	$ 2,874	$ 297	$ 31,142	$ 534	$ 462,524
Investments:									
Debt Securities	$ 191,342	$ 2,423,648	$ 301,810	$ 122,681	$ 20,296	$ 2,236	$ 595,511	$ 68,131	$ 3,725,655
Equity Investments	504,292	6,387,650	795,440	323,331	53,491	5,894	993,149	108,021	9,171,268
Venture Capital	40,886	517,887	64,492	26,214	4,337	478	—	—	654,294
Real Estate	74,219	940,089	117,068	47,586	7,872	867	—	—	1,187,701
Mortgage Loans	417	5,273	656	267	44	5	—	—	6,662
Invested Securities Lending Collateral	94,078	1,191,653	148,395	60,319	9,979	1,100	34,170	3,390	1,543,084
Investment Contracts	—	—	—	—	—	—	34,101	19,627	53,728
Total Investments	$ 905,234	$11,466,200	$ 1,427,861	$ 580,398	$ 96,019	$ 10,580	$1,656,931	$ 199,169	$16,342,392

Actuarial Methods and Assumptions

The information contained in the Schedules of Funding Progress is based on the actuarial study dated January 1, 2003 and calendar year 2003 activity. The actuarial accrued liability and schedule of funding progress is presented by the retirement systems for the last ten years in their separately presented financial reports based on the report generated by the latest actuarial study, conducted by Gabriel, Roeder, Smith & Company. The actuarial value of assets is based on a smoothed expected investment income rate. Investment income in excess or shortfall of the expected 8 percent return on fair value is smoothed over a five-year period with 20 percent of a year's excess or shortfall being recognized each year, beginning with the current year. All systems use the entry age actuarial cost method and the level percent of payroll amortization method. The remaining amortization period for all systems is open group, 20 years, open period. An inflation rate of 3 percent is used for all systems. Post retirement cost of living adjustments are non-compounding and are based on the original benefit. The adjustments are also limited to the actual CPI increase for the year with any unusual CPI increase not met carried forward to subsequent years. Below is the Schedule of Funding Progress.

(Table presented on next page)

Schedules of Funding Progress
By Valuation Date
(Expressed in Thousands)

	Contributory System	Noncontributory System	Public Safety System	Firefighters System	Judges System	Governors and Legislative Pension Plan
Actuarial Value of Assets:						
January 1, 2002	$ 927,523	$ 11,104,334	$ 1,376,466	$ 569,151	$ 92,649	$ 11,710
January 1, 2003	$ 899,290	$ 10,848,586	$ 1,349,435	$ 553,589	$ 90,904	$ 10,719
December 31, 2003	$ 930,999	$ 11,640,475	$ 1,448,888	$ 589,502	$ 97,412	$ 10,905
Actuarial Accrued Liability (AAL):						
January 1, 2002	$ 948,912	$ 10,806,024	$ 1,366,134	$ 491,274	$ 85,987	$ 8,182
January 1, 2003	$ 976,918	$ 11,764,353	$ 1,458,491	$ 521,164	$ 90,573	$ 8,706
December 31, 2003	$ 987,798	$ 12,587,893	$ 1,565,706	$ 555,746	$ 97,396	$ 8,624
Unfunded Actuarial Accrued Liability (UAAL):						
January 1, 2002	$ 21,389	$ (298,310)	$ (10,332)	$ (77,877)	$ (6,662)	$ (3,528)
January 1, 2003	$ 77,628	$ 915,767	$ 109,056	$ (32,425)	$ (331)	$ (2,013)
December 31, 2003	$ 56,799	$ 947,418	$ 116,818	$ (33,756)	$ (16)	$ (2,281)
Funding Ratios:						
January 1, 2002	97.7%	102.8%	100.8%	115.9%	107.7%	143.1%
January 1, 2003	92.1%	92.2%	92.5%	106.2%	100.4%	123.1%
December 31, 2003	94.2%	92.5%	92.5%	106.1%	100.0%	126.4%
Annual Covered Payroll:						
January 1, 2002	$ 142,882	$ 2,832,060	$ 260,783	$ 67,192	$ 10,927	$ 556
January 1, 2003	$ 142,325	$ 2,929,449	$ 268,478	$ 71,354	$ 11,173	$ 556
December 31, 2003	$ 139,470	$ 2,959,347	$ 278,402	$ 75,619	$ 10,888	$ 556
UAAL as a Percent of Covered Payroll:						
January 1, 2002	15.0%	(10.5)%	(4.0)%	(115.9)%	(61.0)%	(634.5)%
January 1, 2003	54.5%	31.3%	40.6%	(45.4)%	(3.0)%	(362.1)%
December 31, 2003	40.7%	32.0%	42.0%	(44.6)%	(0.1)%	(410.3)%

B. **Teachers Insurance and Annuity Association**

The Teachers Insurance and Annuity Association and/or College Retirement Equities Fund (TIAA–CREF), privately administered defined-contribution retirement plans, provide individual retirement fund contracts for each eligible participating employee. Eligible employees are mainly state college/university faculty and employees of the Student Assistance Programs. Benefits to retired employees are generally based on the value of the individual contracts and the estimated life expectancy of the employee at retirement and are fully vested from the date of employment. The total current year required contribution and the amount paid is 14.2 percent of the employee's annual salary. Most of the employers contribute both the employer and the employee share of 7.1 percent. The State has no further liability once annual contributions are made.

The following table presents the State of Utah's actual employer contributions to the TIAA–CREF retirement system:

State of Utah's Employer Contributions
For the Fiscal Years Ended June 30, 2003 and 2004
(Expressed in Thousands)

	Contribution Required and Paid 2003	Contribution Required and Paid 2004
Primary Government	$ 700	$ 843
Component Units:		
College and University	94,767	104,783
Total	$ 95,467	$ 105,626

NOTE 17. POSTEMPLOYMENT BENEFITS

At the option of the individual state departments, employees may be offered participation in a post retirement benefits program, as set forth in Section 67–19–14(2) of the *Utah Code*. In order to qualify, the employee must be eligible to receive retirement benefits. Upon retirement most employees, including those age 65 and over, may be paid for 25 percent of unused accumulated sick leave at the employee's current rate of pay. In addition, the employee may receive health and life insurance coverage up to age 65, but not to exceed five years. If the employee has not reached age 65 after the five-year limitation is reached, they may exchange one sick leave day in excess of 60 days, after the 25 percent payout, for one month of paid health and life insurance coverage, or after age 65 spouse health insurance to age 65, or Medicare supplemental insurance for the employee or spouse. As of June 30, 2004, there were 1,811 individuals on the program. The insurance coverage is paid 100 percent by the State for individuals retiring before July 1, 2000. Individuals retiring thereafter are required to pay between 2 and 7 percent of the cost depending on the coverage selected.

The State has recorded an estimated liability for current employees who will eventually retire in addition to an estimated liability for employees who have already retired. The estimated 25 percent sick leave payouts at retirement are included in the liability for compensated absences. The postemployment benefits liability includes the estimated liability for health and life insurance benefits. Charges to agency budgets are made on an ongoing basis to fund the current payments for these benefits and compensated absences. For the year ended June 30, 2004, the cumulative postemployment benefits liability was $240.538 million, and $38.219 million in postemployment benefits expenditures were recognized. In accordance with state law, accrued tax revenues are designated at yearend to fund post-employment benefits, compensated absences, and other liabilities. At June 30, 2004, net designated accrued taxes were $348.104 million.

A liability is also reported in the Pension Trust Funds of $4.226 million, including $1.983 million for compensated absences, which will be liquidated by assets of Utah Retirement Systems

All employers who participate in the State Retirement Systems are eligible to participate in the Public Employees Long-term Disability Program per Section 49–21–201 of the *Utah Code*. Employees of those state agencies who participate in the program and meet long-term disability eligibility receive benefits for the duration of their disability up to the time they are eligible for retirement or until age 65. Benefits begin after a three-month waiting period and are paid 100 percent by the program. As of June 30, 2004, there are 326 state employees receiving benefits. The program is funded by paying premiums to the Public Employees Health Program (component unit), where assets are set aside for future payments. For the year ended June 30, 2004, the State paid $4.393 million in premiums and the program has $26.845 million in assets.

The colleges and universities offer early retirement incentives, as approved by their boards of trustees, which may provide health, dental, and life insurance; incentive pay or stipends; or long-term disability. Eligibility requirements differ, depending on the college or university. In general, the employee must be at least 52–60 years of age with a minimum of 15–16 years of service. Some of the colleges and universities also require that the sum of the employee's age and years of service be at least 75. The employee may receive these benefits up to age 65 but not to exceed 5–7 years. The ranges for incentive and stipend pay are from 12 percent to 30 percent of the employee's salary upon retirement. The benefits are funded on a pay-as-you-go basis. As of June 30, 2004, there are 455 individuals participating in the programs, and $6.823 million was expended during the year. The total liability for postemployment benefits and compensated absences for the college and universities at June 30, 2004, was $71.481 million. The postemployment benefits portion of the cumulative liability was $17.622 million.

NOTE 18. RISK MANAGEMENT AND INSURANCE

It is the policy of the State of Utah to periodically assess the proper combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. This is accomplished by the State through the Risk Management (internal service fund) and the Public Employees Health Program (component unit). The State is the predominant participant in these programs. The Risk Management Fund manages the general property and liability risk of the State, and the Public Employees Health Program manages the health insurance programs of the State. The University of Utah and Utah State University (component units) each maintain self-insurance funds to manage health care. The University of Utah also maintains self-insurance funds to manage auto/physical damage, and medical malpractice liabilities.

The State has determined that the risk funds can economically and effectively manage the State's risks internally and have set aside assets for claim settlement. The risks are covered through reserves and commercial insurance for excessive losses. The State has not had any losses or settlements that exceeded the commercial excess insurance coverage for any of the last three years. The risk funds service all claims for risk of loss to which the State is exposed, including general liability, property and casualty, group medical and dental, and some environmental claims. They also service the general risk claims for many local school districts and local health departments within the State. All funds, agencies, and public authorities of the State may participate in the State's Risk Management and Public Employees Health Programs. The risk funds allocate the cost of providing claims servicing, claims payment, and commercial insurance by charging a "premium" to each agency, public authority, or employee, based on each organization's estimated current year liability and property values. The liability is determined using an independent actuarial study based on past, current, and estimated loss experiences.

Risk Management and Public Employees Health Program claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated and include an amount for claims that have been incurred but not reported. Because actual claims liabilities are affected by complex factors including inflation, changes in legal doctrines and insurance benefits, and unanticipated damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts. Claims liabilities are recomputed periodically by actuaries to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Inflation is included in this calculation because reliance is based on historical data that reflects past inflation and other appropriate modifiers. The Risk Management claim liabilities reserves are reported using a discount rate of 2 percent. The Public Employees Health Program long-term disability benefit reserves are reported using a discount rate of 5.5 percent. The primary government and the discrete component units of the State paid premiums to the Public Employees Health Program of $193.268 million and $2.491 million, respectively, for health and life insurance coverage in fiscal year 2004. In addition, the State Department of Health paid $26.291 million in premiums to the Public Employees Health Program for the Children's Health Insurance Program.

The State covers its workers' compensation risk by purchasing insurance from Workers' Compensation Fund (a related organization). The University of Utah and Utah State University report claims liabilities if it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The University of Utah and the University Hospital have a "claims made" umbrella malpractice insurance policy in an amount considered adequate by its respective administrations for catastrophic malpractice liabilities in excess of the trusts' fund balances. Amounts for the current year are included below.

The following table presents the changes in claims liabilities balances (short-and long-term combined) during fiscal years ended June 30, 2003, and June 30, 2004:

Changes in Claims Liabilities
(Expressed in Thousands)

	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management:				
2003	$ 46,814	$ 5,674	$ (8,829)	$ 43,659
2004	$ 43,659	$ 5,506	$ (8,742)	$ 40,423
Public Employees Health Program:				
2003	$ 79,895	$ 341,365	$(341,006)	$ 80,254
2004	$ 80,254	$ 412,313	$(393,253)	$ 99,314
College and University Self-Insurance:				
2003	$ 27,858	$ 107,289	$(100,147)	$ 35,000
2004	$ 35,000	$ 124,581	$(114,682)	$ 44,899

NOTE 19. SUBSEQUENT EVENTS

On July 1, 2004, the State issued $140.635 million of general obligation bonds Series 2004 B. Principal on the bonds is due annually commencing July 1, 2005, through July 1, 2019. Interest rates on the bonds range from 4.75 to 5 percent, with a "true interest rate" of 3.75 percent after considering premium received upon the sale of the bonds. Proceeds of the bonds will be used for capital facilities and highway projects.

On October 26, 2004, the Utah State Building Ownership Authority (blended component unit) issued $45.805 million of Lease Revenue and Refunding Bonds Series 2004 A maturing May 15, 2005 through 2024, and on May 15 2027, and $8.92 million of Lease Revenue Refunding Bonds Series 2004 B, maturing May 15, 2005 through 2013. Interest rates on the bonds range from 3 percent to 5.25 percent. Proceeds of the bonds will be used for capital facilities projects and to advance refund certain outstanding lease revenue bonds.

Subsequent to June 30, 2004, the Utah Housing Corporation (major component unit) issued $13.8 million Single-Family Mortgage Purchase Variable Rate Bonds, 2004 Series D, maturing on July 1, 2035, interest at a variable rate adjusted weekly, and $11.2 million Single-Family Mortgage Purchase Fixed Rate Bonds, 2004 Series D, maturing on July 1, 2006 through 2014, and on July 1, 2026, interest rates of 2.75 percent to 5.25 percent.

In addition, Utah Housing Corporation issued $13.8 million Single-Family Mortgage Purchase Variable Rate Bonds, 2004 Series E, maturing on January 1, 2026, interest at a variable rate adjusted weekly, and issued $11.2 million Single-Family Mortgage Purchase Fixed Rate Bonds, 2004 Series E, maturing on July 1, 2006 through 2014, and on July 1, 2014 and January 1, 2027, interest rates of 2.5 percent to 5.125 percent.

Utah State University (major component unit) in July 2004, issued $40.47 million Student Fee and Housing System Revenue Bonds Series 2004. The funds from this bond will be used to acquire and construct additions to the on campus Housing System by constructing the Living Learning Center on ground owned by the University at the Logan, Utah Campus. The project will include the construction of six multiple story residential facilities, the construction of a 600 stall, three story parking terrace and upgrades to the food services facilities within the Taggart Student Center to provide, in part, dining services to the occupants of the residential facilities. Interest on these bonds range from a low of 4.25 percent to a high of 5.25 percent, semi-annual payments on the bonds will commence October 1, 2004, with interest only payments due each October 1, and principal and interest payments due each April 1 through 2035.

Salt Lake Community College (nonmajor component unit) entered into a five-year agreement with Collegis Eduprise, Inc (Collegis) effective December 1, 2001 and ending November 30, 2006 for the management and operation of information technology and related services for the college. Subsequent to June 30, 2004, both parties mutually agreed to an early termination and transition of these services back to the College effective July 14, 2004. Final settlement terms included a payment to Collegis of $4.5 million.

Subsequent to June 30, 2004, Utah Valley State College (nonmajor component unit) issued two bonds to finance the construction of a baseball stadium and to legally defease the Student Center Building Fee and Unified System Revenue Cross-Over Refunding Bonds, Series 1995 A; the Municipal Building Authority of Utah County, Utah, Lease Revenue Bonds (Utah Valley State College Project), Series 1999; and the State Board of Regents of the State of Utah Student Center Building Fee and Unified System Revenue Bonds, Series 2000.

The State Board of Regents of the State of Utah issued Student Center Building Fee and Unified System Revenue Bonds, Series 2004 A, in the amount of $11.02 million and Series 2004 B (Federally Taxable) in the amount of $4.035 million, for and on behalf of the Utah Valley State College on August 3, 2004. The proceeds of the SBR/UVSC 2004 Bonds will be used to refund all of the State Board of Regent's outstanding 2000 Bonds and the 1995 A Bonds, satisfy a reserve fund requirement and pay the costs associated with the issuance of the 2004 Bonds.

The Municipal Building Authority of Utah County, Utah, issued Lease Revenue Bonds (Utah Valley State College Project), Series 2004 A (Federally Taxable) in the amount of $3.9 million and Series 2004 B in the amount of $2.6 million on August 3, 2004. The County will, in turn, sublease the Series 2004 Project to the State Board of Regents of the State of Utah on behalf of the College, pursuant to a Sublease Agreement dated as of August 1, 2004. The proceeds of the MBA/UVSC 2004 Bonds will be used to refund all of the Authority's outstanding 1999 Bonds, finance the acquisition and construction of a baseball stadium and related improvements, satisfy a reserve fund requirement, and pay the costs associated with the issuance of the 2004 Bonds.